

# **Rewriting the Social Contract: The Social Fund and Egypt's Politics of Retrenchment**

**By**

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A thesis submitted in conformity with the requirements for the degree of Doctor of  
Philosophy

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# **Rewriting the Social Contract: The Social Fund and Egypt's Politics of Retrenchment**

**PhD, 2009**

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## **Abstract**

The politics surrounding retrenchment and social protection in the Middle East have been obscured by a broad ideological consensus that civil society has replaced the state as the site of social provisioning since the nineties. Contrary to the dominant “state retreat” narrative, the adoption of neo-liberalism in the region was not in fact uniformly accompanied by convergence around a minimal welfare regime. Why have processes of welfare retrenchment unfolded along contrasting patterns across the Middle East with some states explicitly redefining social policy frameworks, and others undermining access and effects of prevailing programs without dismantling them? The dissertation aims to contribute to our understanding of state-society relations in the region by closely examining recent welfare regime changes in Egypt. Why has Egypt pursued “hidden retrenchment” entailing dilution of universal benefits, conversion of social programs to new beneficiaries and institutional layering, *without* the explicit overhaul of welfare policy frameworks? What are the micro-level political influences shaping the retrenchment process on the ground?

Using the Social Fund for Development as a window for understanding hidden retrenchment in Egypt, the dissertation demonstrates that external dynamics of globalization, and donor assistance do not mainly account for welfare regime restructuring. Similarly, the state's fiscal status, and the underlying switch in development strategies cannot explain retrenchment patterns. Rather, I argue that the internationally dominant neoliberal development discourse has influenced some aspects of retrenchment reforms, and domestic political dynamics have molded hidden retrenchment in Egypt. The regime's power maintenance logic and a prevailing moral economy of social entitlements explain the process. Micro-level qualitative and statistical analyses of retrenchment politics also reveal that intra-state agencies struggles, regime security concerns, the state's tendency to fiscally penalize areas with a history of Muslim Brotherhood support, as well as the National Democratic Party's patronage networks influence outcomes on the ground. My findings suggest that variations in retrenchment patterns across the region reflect important differences in states' social bases of power, rather than external pressures or domestic economic dynamics.

## **Acronyms**

Central Agency for Public Mobilization And Statistics (CAPMAS)  
Community Development Program (CDP)  
Comprehensive Social Insurance Scheme (CSIS)  
Economic Reform and Structural Adjustment Program (ERSAP)  
Egyptian Association for Cooperative Insurance (EACI)  
Egyptian Center for Economic Studies (ECES)  
Egyptian Incubators Association (EIA)  
Enterprise Development Program (EDP)  
Foreign Direct Investment (FDI)  
General Sales tax (GST)  
Governmental-NGO (GNGO)  
Government of Egypt (GOE)  
Gross National Income (GNI)  
Human Development Index (HDI)  
Human Resource Development Program (HRDP)  
International Food Policy Research Institute (IFPRI)  
International Labor Organization (ILO)  
Institutional Development Program (IDP)  
Local Area Development (LAD)  
Micro-Finance Unit (MFU)  
Micro-Small and Medium Enterprises (MSMEs)  
Middle East and North Africa (MENA)  
Ministry of Social Solidarity (MOSS)  
Muslim Brothers (MB)  
National Democratic Party (NDP)  
National Organization for Social Insurance (NOSI)  
Nasser Social Bank (NSB)  
Organization for Economic Cooperation and Development (OECD)  
Productive Families Association (PFA)  
Productive Families Program (PFP)  
Public Works Program (PWP)  
Real Per Capita Consumption (RPCC)  
Sadat Pension Plan (SPP)  
Small Enterprise Development Organization (SEDO)  
Social Funds (SFs)  
Social Fund for Development (SFD)  
Small and Micro-Enterprises (SMEs)  
Social Security Scheme (SSS)  
Union of Real Estate Tax Authority Employees (URETAE)  
United Nations Research Institute for Social Development (UNRISD)  
Value Added Tax (VAT)

## Introduction

Social welfare provision has traditionally constituted the dominant dimension through which both citizenship and politics in the classic sense of “who gets what, when and how” are experienced in the Middle East and North Africa (MENA).<sup>1</sup> Indeed, some specialists characterize social policy as “the very rationale and purpose of the state”<sup>2</sup> in the region, highlighting the close link between modern state building processes and welfare policies.<sup>3</sup> Social contracts that served to allocate responsibilities among the state, the market and society since the rise of etatist developmental models in the 1950s, however, have been undergoing official, as well as undeclared processes of re-definition since the late 1980s. The turn towards the neoliberal development model, widely conceived as entailing the systematic rolling back of the welfare state, combined with failed political liberalization efforts and growing authoritarianism, has raised serious questions about state-society relations in the contemporary Middle East. What is the meaning and content of citizenship in the neoliberal context?

In 2007, constitutional amendments formally recast the Egyptian state’s role away from economic planning under a “socialist democratic system” to that of “regulating the economy in pursuit of economic development;” thereby officially expanding the role of

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<sup>1</sup> The focus of the dissertation’s analysis is on lower and middle-income states in the Middle East and North Africa, specifically Egypt, Jordan, Morocco, Tunisia and Yemen.

<sup>2</sup> Lisa Anderson, "Students, Bases, Parties, Movements: Public Welfare and the Struggle Between the State and Its Competitors in the Middle East" (paper presented at conference on the New Frontiers of Social Policy: Development in A Globalizing World, Arusha, Tanzania, December 12-15, 2005), 3.

<sup>3</sup> Ibid; and Diane Singerman, *Avenues of Participation: Family, Politics, and Networks in Urban Quarters of Cairo*, Princeton Studies in Muslim Politics (Princeton, N.J.: Princeton University Press, 1995).

the market.<sup>4</sup> Although the legally enshrined rights to employment, free education and health care<sup>5</sup> were officially preserved, the country has been witnessing attempts to re-write the social contract since the adoption of neoliberal reforms in the 1990s. What are the underlying dynamics driving welfare regime restructuring in Egypt, and MENA more widely?

This dissertation aims to contribute to our understanding of state-society relations in MENA by closely examining recent welfare regime changes in Egypt, the region's biggest economy and most populous state. I use the term "welfare regime"<sup>6</sup> to refer to social protection institutions that are geared towards promoting income security and transferring income to the poor. Institutions are commonly defined as "the formal or

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<sup>4</sup> Government of Egypt, "The Final Clauses of Constitutional Amendment" <http://www.carnegieendowment.org/programs/arabic/appendixArabic.pdf> 2007. (accessed on January 2, 2009). (In Arabic).

<sup>5</sup> According to the Egyptian constitution, "employment is considered "a right, a duty, and an honor guaranteed by the state" (article 13), social and health services are also guaranteed by the state (article 16), and state-sponsored education are free (article 20)." See Sufan Alissa, "The Political Economy of Reform in Egypt: Understanding the Role of Institutions," *Carnegie Papers*, no.5 (2007): 7.

<sup>6</sup> Based on Esping-Andersen's work, the welfare regime concept is adopted in order to highlight the systematically interwoven relations between the state and economy in the area of social provision. See Gosta Esping-Andersen, *The Three Worlds of Welfare Capitalism* (Cambridge: Polity Press, 1990), 938. Due to the study's concern with social protection policies that directly aim to improve living standards, among the economically disadvantaged, I do not address social services such as education, and health. Allocations to social services are generally considered to be mildly progressive, if expenditures focus on primary care and non-tertiary levels of education. This, however, has not been the case in Egypt and MENA, more generally. Although allocations to services are relatively high in MENA, they have become less accessible by the poor in recent years. Due to the enactment of usercharges on public health services, the bias towards secondary and tertiary education, as well as the *de facto* privatization of public schooling, there is evidence of state retrenchment and higher spending by the poor on these services. See Mariz Tadros, "State Welfare in Egypt since Adjustment: Hegemonic Control with a Minimalist Role," *Review of African Political Economy* 33, no. 108 (2006); Muhammad Q Islam, "Fiscal Policy and Social Welfare in Selected Mena Countries," in *Earnings Inequality, Unemployment, and Poverty in the Middle East and North Africa*, ed. Wassim N. Shahin and Ghassan Dibeh (Westport: Greenwood Press, 2000).

informal procedures, routines, norms and conventions embedded in the organizational structure of the polity or political economy,”<sup>7</sup> or in long-standing public policies.<sup>8</sup> Welfare regimes encompass food subsidy systems<sup>9</sup> and cash transfer schemes, designed to improve immediate consumption<sup>10</sup>, income generation programs aimed at facilitating participation in the production process, and pension plans geared towards promoting long-term income security for the workforce.

Aside from the decline in social spending levels relative to the early 1980s, Egypt’s insurance-based egalitarian welfare regime has undergone systematic qualitative shifts that served to retrench the state’s role in social protection and weaken its egalitarian character. Indeed, the state moved away from the twin goals of universalism and distributional equity, thereby increasingly assuming a residual role.<sup>11</sup> As universal subsidies were significantly scaled back and targeted production-oriented initiatives were

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<sup>7</sup> Peter A. Hall, and Rosemary C.R. Taylor, "Political Science and the Three New Institutionalisms," *Political Studies* 44 (1996): 938.

<sup>8</sup> According to Douglas North, “institutions” broadly refer to “the rules of the game in society or, more formally, the humanly devised constraints that shape human interaction” Douglass Cecil North, *Institutions, Institutional Change, and Economic Performance*, Political Economy of Institutions and Decisions (New York: Cambridge University Press, 1990), 3. I interpret the concept to encompass both the norms embedded in the organizational structure of the political economy as well as those expressed in long standing public policies. See Paul Pierson, "Increasing Returns, Path Dependence, and the Study of Politics," *American Political Science Review* 94, no. 2 (2000).

<sup>9</sup> Food subsidies typically aim to increase the purchasing power of low-income households, reduce calorie and micronutrient deficiencies, and maintain low urban wages. The focus of the study is on the role of subsidies as a distributive mechanism designed to transfer a significant amount of public expenditure into the hands of the poor. On the role of subsidies as a vehicle of social protection, see Harold Alderman, "Subsidies as a Social Safety Net: Effectiveness and Challenges," in *Social Protection Discussion Paper Series* (Washington, D.C.: The World Bank, 2002).

<sup>10</sup> Transfers to the poor may potentially also indirectly increase their investment in education or health by lowering the cost of living. Whether transfers serve to increase consumption or investment in part depends on the size of the transfer.

<sup>11</sup> The term refers to states that only extend a minimal safety net and refrain from intervening in markets to promote pro-poor income redistribution.



instituted, collective rights outside the sphere of the market have been weakened. In addition, as regressive taxation policies on consumption were enacted, the state's role in promoting distributional equity has also become marginal.

I argue that Egypt's process of retrenchment has been molded mainly by domestic political dynamics—specifically the prevailing moral economy of social entitlements, and the authoritarian state's power maintenance logic—and to a lesser extent by the internationally dominant neoliberal ideology. Although the trend towards retrenchment across MENA is rooted in accumulation and financial crises, both the degree and patterns of change cannot be reduced to economic dynamics alone. Further, while globalization, donors, and the prevailing neoliberal development discourse are likely to influence retrenchment to varying degrees, external factors cannot fully explain patterns of restructuring. Rather, the state's social basis of power and the regime's power maintenance logic hold the key to understanding retrenchment patterns in the region.

### ***I. Puzzle:***

Although states in the region share largely similar welfare regimes, as well as economic, and labor market structures, processes of state retrenchment have not only occurred to varying degrees, and carried differential implications for groups across societies, but have also unfolded in contrasting patterns. On the one hand, countries such as Egypt, Morocco and Tunisia have all pursued “hidden retrenchment”<sup>12</sup> whereby transfers to the poor were reduced without fundamentally restructuring, or eliminating

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<sup>12</sup> I use the term “hidden retrenchment,” in reference to forms of institutional adaptation that did not entail sharp breaks from already existing norms, procedures, and laws. While these forms of adaptation constitute significant changes and have serious consequences in terms of access by the poor, they did not entail the elimination of institutions or their fundamental restructuring. These institutional shifts coincided with major cuts in social allocations in the late 1980s and stagnant or falling per capita spending since 1990.

any social protection institution. They enacted major cuts in their expenditures on food subsidies over the 1990s, restricted coverage to fewer items, and instituted self-targeting reforms, while maintaining their subsidy systems on a universally accessible basis. Whereas these states preserved old welfare regimes and social policy frameworks anchored on social insurance and subsidies, they have buttressed them with targeted production-oriented initiatives, as a long-term poverty alleviation strategy mainly benefiting the middle classes. On the other hand, Yemen and Jordan have both witnessed explicit retrenchment. Retrenchment in these two cases entailed major institutional shifts in their welfare regimes; including the integration and restructuring of pension schemes,<sup>13</sup> the elimination of food subsidies and the expansion of citizenship-based cash support designed to improve consumption among the poor.<sup>14</sup>

Historically, the development of the state's welfare functions across MENA has been associated with the institutionalization of distributional "rights" under social contracts that served to bestow legitimacy on newly created nation-states. Aside from the state's commitment to welfare investment in social services such as education, health,<sup>15</sup>

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<sup>13</sup> By restructuring pension schemes I mean the reorganization of their financing and management. Preliminary evidence suggests that Jordan has undertaken pension reforms in 1995 and 2003 while Yemen enacted reforms in 2000. Egypt, Morocco and Tunisia have been contemplating pension reforms but all three have not enacted them. For a discussion see, David A. Robalino, Edward Whitehouse, and World Bank, *Pensions in the Middle East and North Africa: Time for Change* (Washington, D.C.: World Bank, 2005).

<sup>14</sup> For a discussion of cash transfer schemes in the region see, World Bank, *Reducing Vulnerability and Increasing Opportunity: Social Protection in Middle East and North Africa*, Orientations in Development Series (Washington, DC: World Bank, 2002).

<sup>15</sup> Upon comparing health and education spending levels in the region with other developing areas, public spending levels are relatively high. For instance, the median expenditure on health and education in the Middle East over the 1990s is estimated at 6.3 percent of the Gross Domestic Product (GDP) versus a median of 3.5 percent in East Asia. See Massoud Karshenas, Valentine M. Moghadam, and United Nations Research

and housing, elaborate social protection regimes were institutionalized. Social security systems date back to the enactment of compensation schemes for a minority class of workers—Algeria, 1919; Tunisia, 1921; Morocco, 1927; Egypt, 1936; Lebanon, 1943; Syria, 1946.

Insurance-based welfare regimes were cemented with the rise of large public sectors fueled by three main factors: the post-colonial development project, pursuit of statist import-substitution based industrialization policies and the inflow of external rents. Whereas Arab socialist ideology contributed to the expansion of welfare regimes in the case of “socialist republics,” it indirectly influenced the social role of the state in the cases of “liberal monarchies.”<sup>16</sup> By the late 1980s, the state structurally dominated the economy and labour markets throughout MENA. Public enterprises’ share in economic production was high, ranging from 15 percent in Morocco to 60 percent in Algeria. In contrast, the average share of the public sector in middle-income economies was only 10 percent.<sup>17</sup> At the level of labor markets, the state’s central role was reflected in high government wage bills that doubled the worldwide average of five percent in the late 1990s.<sup>18</sup>

Another hallmark of the region’s welfare regimes was universal food subsidy schemes, which owe their origins to distributional systems established during World War

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Institute for Social Development, *Social Policy in the Middle East : Economic, Political, and Gender Dynamics* (New York: Palgrave Macmillan, 2006).

<sup>16</sup> Socialist republics included Algeria, Egypt, Iraq, Libya, Tunisia, the Sudan, and Yemen. Liberal monarchies included Morocco, Jordan, Kuwait and Saudi Arabia. See Alan Richards and John Waterbury, *A Political Economy of the Middle East*, 2nd ed. (Boulder: Westview Press, 1996).

<sup>17</sup> Zafiris Tzannatos and Iqbal Kaur, "Welfare State Policies in the Middle East and North Africa," in *When Markets Fail: Social Policy and Economic Reform*, ed. Ethan B. Kapstein and Branko Milanovic (New York: Russell Sage Foundation, 2002).

<sup>18</sup> Ibid., 151.

II. Indeed, the state's extensive intervention in regulating food prices and supply is partially rooted in the region's reliance on imports for a large share of its subsistence needs. For the main staple, wheat, imports covered as much as two-thirds of domestic regional consumption in the late 1990s.<sup>19</sup> With domestic production accounting for only 65 percent of MENA's food needs, versus 86 percent in the case of low-income countries, securing access to food has traditionally constituted one of the primary welfare responsibilities of the region's states.<sup>20</sup> With the expansion of the state's economic functions in the post-colonial era, subsidies on foodstuffs were gradually instituted in the region. Together with price controls of agricultural inputs, subsidy schemes served to preserve the purchasing power of urban salaries, while providing income support for farmers.<sup>21</sup> In 2008, consumer subsidies for basic foodstuffs ranged from as low as 0.04 percent of the GDP in Lebanon, to 1.3 percent in Egypt and Morocco and up to 2.1 percent in Syria.<sup>22</sup>

Despite similar trajectories of welfare regime development, the region has witnessed contrasting institutional patterns of welfare restructuring since the 1990s. Why has this been the case? What, specifically, are the underlying dynamics behind the ongoing process of hidden retrenchment in Egypt? To what extent, have external dynamics of globalization, donor assistance and the internationally dominant

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<sup>19</sup> Hans and Alan Richards Löfgren, "Food Security, Poverty, and Economic Policy in the Middle East and North Africa," in *Food, Agriculture, and Economic Policy in the Middle East and North Africa*, ed. Hans Löfgren (New York: JAI, 2003), 5.

<sup>20</sup> Ibid.

<sup>21</sup> Blandine Destremau, "Overview of Social Protection in Southern and Eastern Mediterranean Countries" (paper presented at the Social Security: A Factor of Social Cohesion Euro-Mediterranean Conference, Limassol, 27 and 28 May 2004), 16.

<sup>22</sup> World Bank, "Mena Food Crisis: Questions and Answers" <http://web.worldbank.org/WBSITE/EXTERNAL/COUNTRIES/MENAEXT>.

development discourse shaped welfare restructuring? What are the domestic-level variables shaping Egypt's political economy of retrenchment? And, at the microlevel, what are the dynamics shaping retrenchment on the ground?

These questions are theoretically and empirically significant. Indeed, the dissertation seeks to identify the "factors or conditions that facilitate different modes of institutional change"<sup>23</sup> in MENA's authoritarian contexts. Although there has been increasing attention to the role of institutions, comparative institutional analysis of the region is scarce.<sup>24</sup> Recent studies on the region's political economy have emphasized the role of personalized power structures and patron-client relations, as opposed to the prevailing institutions, in shaping economic reform outcomes.<sup>25</sup> Indeed, the longevity of institutions has been attributed to their embeddedness in informal networks that serve to adapt them to regime interests. This study demonstrates that whereas such dynamics are prevalent, they do not capture the entire picture, or account for all forms of institutional change in MENA's political economies. As demonstrated by the case of Egypt, efforts

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<sup>23</sup> Kathleen Thelen, "How Institutions Evolve: Insights from Comparative Historical Analysis," in *Comparative Historical Analysis in the Social Sciences*, ed. James Mahoney and Dietrich Rueschemeyer (Cambridge: Cambridge University Press, 2003), 37. Proponents of historical institutionalism argue that identifying these dynamics constitutes a 'crucial research frontier,' Ibid.

<sup>24</sup> Among the few recent comparative institutional studies of the region are: Boyan Belev, *Forcing Freedom: Political Control of Privatization and Economic Opening in Egypt and Tunisia* (Lanham: University Press of America, 2000); Ellen Lust-Okar, *Structuring Conflict in the Arab World: Incumbents, Opponents, and Institutions* (New York: Cambridge University Press, 2005).

<sup>25</sup> Steven Heydemann, *Networks of Privilege in the Middle East: The Politics of Economic Reform Revisited* (New York: Palgrave Macmillan, 2004); Steven Heydemann, "Social Pacts and the Persistence of Authoritarianism in the Middle East," in *Debating Arab Authoritarianism: Dynamics and Durability in Nondemocratic Regimes*, ed. Oliver Schlumberger (Stanford: Stanford University Press, 2007); and Oliver Schlumberger, "Structural Reform, Economic Order, and Development: Patrimonial Capitalism," *Review of International Political Economy* 15, no. 4 (2008): 622-49.

aimed at reinventing the social contract have been geared towards systematically preserving the interests of particular social classes, and not only the maintenance of patron-clientelism. Another gap in the literature has resulted from the limited attention to theorizing the factors driving different modes of institutional change across MENA. By examining the contrasting records of welfare regime reforms, the study seeks to theoretically identify the variables responsible for the dynamics of path dependence and institutional shifts in the region.

At the empirical level, the importance of the questions I explore lies in deteriorating poverty trends across the region. Poverty in the region has been traditionally considered less acute than in other developing areas such as sub-Saharan Africa, due to the history of egalitarian distribution practices, including high levels of public employment, and the ability of the poor to draw on workers' remittances from the oil-rich Gulf States.<sup>26</sup> This assessment of poverty in the region needs to be kept in perspective, however, since national poverty lines across the region are much lower than Gross National Income (GNI) per capita levels,<sup>27</sup> and official estimates of poverty have tended to be conservative. Further, even based on official estimates, regional poverty levels increased over the 1990s and on average fluctuated between 20 and 25 percent.<sup>28</sup>

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<sup>26</sup> See discussion in Richard H. Adams Jr and John Page, "Poverty, Inequality and Growth in Selected Middle East and North Africa Countries, 1980–2000," *World Development* 31, no.12 (2003): 2027-2048.

<sup>27</sup> The ratio of per capita GNI to the poverty line is 6.5 in the United States, versus 9.9 in Egypt, 11.4 in Jordan, 8.8 in Morocco and 13.8 in Tunisia. See Alan Richards, "Modernity and Economic Development," *Middle East Policy* X, no. 3 (2003): 57-78.

<sup>28</sup> Farrukh Iqbal and World Bank, *Sustaining Gains in Poverty Reduction and Human Development in the Middle East and North Africa*, Orientations in Development Series (Washington, DC: World Bank, 2006).

Indeed, recent studies highlight evidence of deteriorating living standards and rising poverty levels.<sup>29</sup> “Real Purchasing Power Parity of the average citizen fell between 1975 and 1998, from 21.3 per cent to 13.9 per cent, or one seventh, of that of the average person in an OECD country.”<sup>30</sup> By 2001 the World Bank estimated that, “approximately 52 million people were poor, an increase in absolute numbers of approximately 11.5 million people, compared with the situation in 1987.”<sup>31</sup> Based on the \$2 per day poverty measure, the ILO estimated that the number of the working poor in MENA increased by more than 6 million from 1994 to 2000, and by another 3.5 million by 2004.<sup>32</sup>

In fact, studies indicate that over the 1990s, the incidence of poverty increased in Egypt, Jordan, Yemen, and to a lesser extent Tunisia, while the poverty gap index increased in Egypt and Morocco.<sup>33</sup> Using the cost of a minimum basket of commodities, a study on Egypt has estimated that poverty doubled between 1990 and 1996 to reach 44 percent of the population.<sup>34</sup> Based on a comparable assessment of poverty in Yemen, 66.9

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<sup>29</sup> There are significant gaps in the available data on poverty in the Middle East. Since the 1980s only a handful of countries have conducted nationally representative household budget surveys and not all surveys are readily accessible by researchers. Most of the available data has focused on Egypt, Jordan, Morocco and Tunisia. See Alan Richards and John Waterbury, *A Political Economy of the Middle East*, 3rd ed. (Boulder: Westview Press, 2008), 274-280.

<sup>30</sup> Ray Bush, "Poverty and Neo-Liberal Bias in the Middle East and North Africa," *Development & Change* 35, no. 4 (2004): 683.

<sup>31</sup> *Ibid.*, xix.

<sup>32</sup> Richards and Waterbury, *A Political Economy of the Middle East*, 277.

<sup>33</sup> The poverty gap is measure of the extent to which average expenditures of the poor fall short of the poverty line. See, Bush, "Poverty and Neo-Liberal Bias in the Middle East and North Africa.."; Richards, "Modernity and Economic Development," 684; Richards and Waterbury, *A Political Economy of the Middle East*, 278.

<sup>34</sup> Bush, "Poverty and Neo-Liberal Bias in the Middle East and North Africa"; Nader Fergany, "Poverty and Unemployment in Rural Egypt," in *Counter-Revolution in Egypt's Countryside : Land and Farmers in the Era of Economic Reform*, ed. Ray Bush (London: Zed Books, 2002), 683.

percent of the population were found to be living below the poverty line in 2005.<sup>35</sup> According to World Bank figures, poverty increased from 13.1 to 19 percent over the 1990s in Morocco, while in Tunisia the increase was slight from 16.2 to 17.1 percent.<sup>36</sup> Whereas some make the case that the increase in regional poverty levels reflects sluggish growth over the 1990s<sup>37</sup>, the fact that higher growth in recent years has *not* been accompanied by improvements in living standards among the poor,<sup>38</sup> points to the need to more closely examine patterns of continuity and change in the prevailing welfare regimes.

## ***II. Welfare Retrenchment and Social Expenditures in MENA***

In its most general sense, the process of retrenchment refers to “increased reliance on the private sector and market forces for the provision of various human services.”<sup>39</sup> Among its consequences are abandoning the official commitments to universality and redistribution that defined the post-war vision of the welfare state as a force for social justice and political inclusion.<sup>40</sup> I use the term “retrenchment”, as defined by Paul Pierson in his influential study *Dismantling the Welfare State?*, to refer to “policy changes that either cut social expenditure, restructure welfare state programs to conform more closely

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<sup>35</sup> Richards and Waterbury, *A Political Economy of the Middle East*, 276.

<sup>36</sup> Ibid., 278.

<sup>37</sup> Iqbal and World Bank, *Sustaining Gains in Poverty Reduction and Human Development in the Middle East and North Africa*.

<sup>38</sup> See, Hanaa kheir-El-Din and Heba El-Laithy, "An Assessment of Growth, Distribution and Poverty in Egypt: 1990/91-2004/05," *Egyptian Center for Economic Studies Working Paper* 115 (December 2006).

<sup>39</sup> Ramesh Mishra, *The Welfare State in Capitalist Society: Policies of Retrenchment and Maintenance in Europe, North America, and Australia*, Studies in International Social Policy and Welfare (New York: Harvester Wheatsheaf, 1990), 9.

<sup>40</sup> Michael K. Brown, "Remaking the Welfare State: A Comparative Perspective," in *Remaking the Welfare State: Retrenchment and Social Policy in America and Europe*, ed. Michael K. Brown (Philadelphia: Temple University Press, 1988), 6-7.



to the residual welfare state model, or alter the political environment in ways that enhance the probability of such outcomes in the future.”<sup>41</sup> At its core, retrenchment entails a process of shifting social provision in a more *residualist* direction. By “residualist welfare states,”<sup>42</sup> I refer to states that extend a minimal means-tested “safety net”, are reluctant to interfere with market mechanisms, and do “little to shift the distribution of income and services in a progressive direction.”<sup>43</sup>

I argue that welfare regimes in the Middle East have been retrenching on several empirical grounds. In fact per-capita social expenditure levels<sup>44</sup> have overall declined, since states faced deepening financial crises in the late 1980s and early 1990s. Even though social spending improved in relative terms by the mid-2000s in MENA, regressive tax reforms have resulted in higher degrees of distributional inequity. Rising unemployment rates which exceed 10 percent in every MENA economy<sup>45</sup> indicate limited access by growing segments of the population to the contribution-based pensions systems, the main component of insurance-based welfare regimes. As elaborated in the next section, welfare regimes across MENA have also witnessed structural transformations that limited access by the poor to social transfers. Institutional shifts in a

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<sup>41</sup> Paul Pierson, *Dismantling the Welfare State? : Reagan, Thatcher, and the Politics of Retrenchment*, Cambridge Studies in Comparative Politics (New York: Cambridge University Press, 1994), 17.

<sup>42</sup> See Richard Morris Titmuss, Brian Abel-Smith, and Kay Titmuss, *Social Policy : An Introduction* (London: Allen & Unwin, 1974), 22.

<sup>43</sup> Jacob S Hacker, "Privatizing Risk without Privatizing the Welfare State: The Hidden Politics of Social Policy Retrenchment in the United States," *The American Political Science Review* 98, no. 2 (2004): 244.

<sup>44</sup> Along the lines of the Organization for Economic Cooperation and Development (OECD) definition, I use the term “social expenditure” to broadly refer to spending on subsidies, social assistance, pensions, public works, health, housing and education.

<sup>45</sup> Tzannatos and Kaur, "Welfare State Policies in the Middle East and North Africa," 153.

residual direction were manifested in several ways: the adoption of new targeting mechanisms, the official reorientation of state policies towards improving market access, cuts or elimination of food subsidy systems, and the introduction of cash transfer schemes. In the case of Egypt, restructuring the universal subsidy system has led to a 50 percent reduction in average per capita transfers, and was not associated with better targeting of the poor.<sup>46</sup>

According to a recent study by the International Food Policy Research Institute (IFPRI), public expenditure rates by states in Africa, Asia, and Latin America noticeably increased between 1980 and 2002.<sup>47</sup> Nevertheless, there is evidence that social expenditures by states across MENA have retrenched, based on the Organization for Economic Cooperation and Development (OECD)'s criteria-- which encompass spending on social security, social assistance, health and housing-- as well as levels of public spending on education.<sup>48</sup>

As a ratio to the size of the economy, expenditure patterns show a sharp decline in average social spending levels from 21.7 to 11.8 percent between 1982 and 1990. Despite a slight recovery to 15.5 percent in the new millennium, social allocations have remained lower than in the early 1980s, the period marking the peak of welfare expansion in the region. For instance, social expenditure in Egypt stood at 34 percent of the GDP in 1982

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<sup>46</sup> Akhter U. Ahmed, *The Egyptian Food Subsidy System: Structure, Performance, and Options for Reform* (Washington, DC: International Food Policy Research Institute, 2001), 48.

<sup>47</sup> For instance, over this period, social security expenditures in Africa increased from 5.7 to 7 percent of total government spending. Further, they more significantly increased from 24 to 38 percent in Latin America, and from 1.9 to 3.8 percent in Asia. See, Shenggen Fan and David Coady, *Public Expenditures, Growth, and Poverty : Lessons from Developing Countries* (Baltimore: Johns Hopkins University Press, 2008).

<sup>48</sup> Given the high levels of illiteracy in the region, I am including expenditure on education as part of the social expenditure category.

but only averaged 17 percent<sup>49</sup> in the 2000s while Tunisia's spending fell from 22.5 to 15.9 percent. Similarly, in the case of Morocco expenditure fell from 12.8 in 1982 to 7.8 percent in 1990 before slightly recovering to 9.9 in recent years.

**Table 1.1: Social Expenditure as a GDP % in MENA**

|                | 1982  | 1990  | 2000s <sup>50</sup> |
|----------------|-------|-------|---------------------|
| <i>Egypt</i>   | 34.2% | 10.9% | 17.0%               |
| <i>Jordan</i>  | 17.6% | 16.6% | 22.8%               |
| <i>Morocco</i> | 12.8% | 7.8%  | 9.9%                |
| <i>Tunisia</i> | 22.5% | 14.3% | 15.9%               |
| <i>Yemen</i>   | -     | 6.9%  | 11.9%               |
| <i>Average</i> | 21.7% | 11.8% | 15.5%               |

*Source: IMF, Government Finance Statistics Yearbook (various years), Economist Intelligence Unit.*

Whereas expenditure in Jordan increased from 17.6 in 1982 to 22.8 percent in recent years, as indicated in Table 1.2, when controlling for population size, levels of spending actually decreased. In fact, social expenditure has not kept pace with population growth in the region; accordingly, per capita spending levels show a decline since 1982. Thus, average social spending per one thousand population in the region declined from 0.003 percent of the GDP in 1982 to 0.0016 in 1990 and averaged only 0.0014 in recent years. The recovery in social spending levels in the 2000s coincided with

<sup>49</sup> According to UNDP statistics as well social spending rose over the 1990s. Despite the cuts in subsidies, the share of social sectors (health and education) in government spending rose from 6% to 7% of the GDP while overall social spending has remained constant at 8.8% of the GDP. Further, social spending as a percentage of total government expenditure increased from 19% to 25% during the same period. See UNDP, *Egypt Human Development Report 1997/8*, 30. ILO statistics on public social security expenditure also reveal a similar pattern with an increase from 4.8% in 1990 to 5.4% of the GDP in 1996. See

<http://www.ilo.org/public/english/protection/socfas/research/stat/table14.htm>

<sup>50</sup> Figures are averages of expenditures between 2000-2007. Due to gaps in statistics in the cases of Morocco and Yemen, I have used the most recent statistics, which are from 1999.

declining or stagnant per capita expenditures in Egypt, Jordan, Morocco and Tunisia. Its impact in Yemen was very slightly progressive on a per capita basis. Although social spending relatively increased in recent years compared to 1990, average welfare allocations on a per capita basis slightly retrenched in MENA as a whole.

**Table 1.2: Per One Thousand Capita Social Expenditure as a % of GDP in MENA**

|                | <i>1982</i> | <i>1990</i> | <i>Average 2000s<sup>51</sup></i> |
|----------------|-------------|-------------|-----------------------------------|
| <i>Egypt</i>   | 0.0007%     | 0.0002%     | 0.0002 %                          |
| <i>Jordan</i>  | 0.0074%     | 0.0052%     | 0.0044 %                          |
| <i>Morocco</i> | 0.0006%     | 0.0003%     | 0.0003 %                          |
| <i>Tunisia</i> | 0.0033%     | 0.0017%     | 0.0016 %                          |
| <i>Yemen</i>   | -           | 0.0005%     | 0.0006 %                          |
| <i>Average</i> | 0.003%      | 0.0016%     | 0.0014%                           |

*Source: IMF, Government Finance Statistics Yearbook (various years), Economist Intelligence Unit, and World Bank, World Development Indicators.*

Aside from population growth, the recent bounce back in MENA's social spending levels should also be kept in perspective given the associated decline in distributional equity. In fact, a more precise gauge of recent patterns of welfare regime development is presented in Table 1.3. Upon comparing spending on welfare programs<sup>52</sup> with consumption taxes levied on goods and services, which are regressive in their incidence, it is evident that MENA's welfare regimes have become less geared towards pro-poor income redistribution. Indeed, countries across the region have moved towards adopting the Value Added Tax (VAT) as an across-the-board flat-rate sales tax levied at

<sup>51</sup> Figures are averages of expenditures between 2000-2006. Due to gaps in statistics in the cases of Morocco and Yemen, I have used the most recent statistics, which are from 1999.

<sup>52</sup> The term "welfare expenditure" narrowly refers to allocations designated to social protection programs that fall under the welfare regime category namely subsidies, social assistance, pensions, public works and income generation schemes but excludes spending on health, education and housing.

multiple stages of production and distribution.<sup>53</sup> In the early 1980s, welfare spending significantly exceeded revenues from indirect taxes in all countries with the exception of Morocco. The decline in welfare allocations and gradual increase in indirect taxes since the late 1980s translated into the abandonment of equity promotion by states in the region. In the early 1990s, on average welfare spending amounted to 5.2 percent whereas indirect taxes represented 6.4 percent of the GDP. By the second half of the 1990s, indirect taxes significantly surpassed welfare transfers in all countries except Jordan where they stood at 8 percent of the GDP. Even as average welfare spending recovered to reach 6.7 percent of the GDP by the mid-2000s, indirect taxes steadily reached 8.8 percent.<sup>54</sup> In sum, correlating welfare expenditure patterns with indirect taxation trends since the early 1980s reveals the tendency towards retrenchment across MENA, as states have increasingly abandoned the goal of income redistribution.

**Table 1.3 Indirect Taxes and Welfare Spending as a % of the GDP<sup>55</sup>**

|                              | 1980-1984               |                       | 1985-1989               |                       | 1990-1994               |                       | 1995-1999               |                       | 2000-2006               |                       |
|------------------------------|-------------------------|-----------------------|-------------------------|-----------------------|-------------------------|-----------------------|-------------------------|-----------------------|-------------------------|-----------------------|
|                              | <i>Welfare Spending</i> | <i>Indirect Taxes</i> | <i>Welfare Spending</i> | <i>Indirect Taxes</i> | <i>Welfare Spending</i> | <i>Indirect Taxes</i> | <i>Welfare Spending</i> | <i>Indirect Taxes</i> | <i>Welfare Spending</i> | <i>Indirect Taxes</i> |
| <i>Egypt</i>                 | 22.8                    | 4.3                   | 13.1                    | 4.1                   | 6.7                     | 4                     | 4                       | 5                     | 4.8                     | 6                     |
| <i>Jordan</i>                | 11.2                    | 1.85                  | 3.8                     | 3.3                   | 7                       | 4.5                   | 8                       | 8                     | 7.1                     | 10.3                  |
| <i>Morocco</i> <sup>56</sup> | 7.8                     | 7                     | 1.7                     | 9.9                   | 1.8                     | 11                    | 2.7                     | 10.4                  | 4.8                     | 9                     |
| <i>Tunisia</i> <sup>57</sup> | 12.5                    | 7.2                   | 5.2                     | 6.7                   | 5.4                     | 6.2                   | 5.7                     | 8.5                   | 10                      | 10.4                  |
| <i>Average</i>               | 13.6                    | 5.1                   | 6                       | 6                     | 5.2                     | 6.4                   | 5.1                     | 7.9                   | 6.7                     | 8.9                   |

*Sources: IMF, Government Finance Statistics Yearbook (various Issues).*

<sup>53</sup> Indirect tax reforms, including VAT, were introduced in Egypt in 1992, Jordan in 1994, Morocco in 1986 and Tunisia in 1988.

<sup>54</sup> Although indirect taxes in Morocco slightly declined in recent years, their levels have continued to significantly surpass welfare spending.

<sup>55</sup> Since statistics for Yemen are only available for the 1990s, the author has traced spending and indirect taxes trends in the other four cases.

<sup>56</sup> Due to gaps in statistics from 2000 to 2002, average based on expenditures over the period 2003-2006.

<sup>57</sup> Due to gaps in statistics from 2001 to 2003, average based on expenditures in the years 2000 and 2004 -2007.

### ***III. Contrasting Retrenchment Patterns***

MENA's social expenditure patterns depict welfare regimes that have proven deeply institutionalized and harder to dismantle than anticipated by neoliberal enthusiasts. Although welfare regimes entered a phase of retrenchment in the late 1980s, as states became reluctant to allocate increased shares of national resources to social welfare in the face of a deepening financial crisis, social expenditure rates regained momentum in the new century. Nonetheless there are clear signs of retrenchment, since per capita spending levels stagnated, or slightly declined, and welfare regimes have become less redistributive.

I contend that in studying MENA's social protection regimes, there is a need to analyze subtle and not so subtle transformations that are remaking welfare states across the region. Indeed recent processes of welfare restructuring entailing differential financial sacrifice across social programs, reduction in universal benefits, redefinition of beneficiaries, and introduction of targeted initiatives, did not coincide with a new round of substantial cuts in social spending. Although these processes coincided with constant per capita expenditure levels in Egypt since 1990, they have undermined access by the poor to welfare programs. In fact, linear measures of 'welfare state effort' do not adequately reflect the state's ongoing attempt to redraft the social contract and redefine its institutionalized social roles. My focus on social consequences, qualitative institutional shifts and micro-level changes, rather than spending levels, is consistent with the skeptical position of many welfare state scholars regarding the significance of

expenditures as a measure of welfare regime change.<sup>58</sup> For many analysts of the developed welfare state, such as Gosta Esping-Andersen, Paul Pierson and Jacob Hacker, social expenditure data can be misleading and should be complemented with in-depth knowledge of both program structures as well as local contexts.<sup>59</sup>

Based on MENA's welfare restructuring records, I would argue that the process of change in a residual direction may take various forms. On the one hand, retrenchment may entail highly visible forms of change through the overhaul and redefinition of social policy frameworks. On the other hand, it may involve "subterranean political processes"<sup>60</sup> that undermine program access and effects, without changing the prevailing policy frameworks. Building on Jacob Hacker's work on "Privatizing Risk Without Privatizing the Welfare State" in the United States,<sup>61</sup> I would label the former pattern of welfare restructuring "*explicit retrenchment*" and the latter "*hidden retrenchment*."

Although contributions to insurance-based pension schemes continued to constitute the biggest component of MENA's social protection regimes and represented two-thirds of the region's welfare expenditures, important variations emerged by the late

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<sup>58</sup> Some like Esping-Andersen, have even gone as far as arguing that, expenditures are "epiphenomenal to the theoretical substance of welfare states." See Esping-Andersen, *The Three Worlds of Welfare Capitalism*, 19.

<sup>59</sup> Cross-national expenditure data have also been criticized on the grounds that public spending is not the necessarily the only or major means available to governments to attain their goals. See discussion in Francis G. Castles, "Is Expenditure Enough?: On the Nature of the Dependent Variable in Comparative Public Policy Analysis," *Journal of Commonwealth and comparative politics* 32, no. 3 (1994); Gosta Esping-Andersen and United Nations Research Institute for Social Development, *After the Golden Age : The Future of the Welfare State in the New Global Order* (Geneva: United Nations Research Institute for Social Development, 1994); Pierson, *Dismantling the Welfare State?: Reagan, Thatcher, and the Politics of Retrenchment*; and Hacker, "Privatizing Risk without Privatizing the Welfare State: The Hidden Politics of Social Policy Retrenchment in the United States."

<sup>60</sup> Ibid., 243.

<sup>61</sup> Ibid.

1990s. Differences in spending on social programs are captured in Table 1.4 and indicate distinct patterns of welfare regime development in recent years. For instance, Egypt, Morocco, and Tunisia have all maintained universal food subsidy systems as their major mechanism for poverty alleviation. Subsidies amounted to over a third of welfare expenditures in these countries. Nonetheless, while their subsidy programs remained openly accessible by their citizens without restrictions on quantity, to varying degrees all three countries have experimented with restricting coverage to fewer items and inferior quality goods typically consumed by the poor in the 1990s. Through restructuring and self-targeting strategies, the cost of food subsidies was reduced from 3 to 1.7 percent of the GDP in Tunisia, and fell from 4.6 to 1.3 percent in Egypt but stayed constant at 1.6 percent in the case of Morocco.<sup>62</sup>

**Table 1.4: Social Sector Expenditures by Middle Eastern States in The Late 1990s as a % of GDP**

|                | <i>Food<br/>Subsidy</i> | <i>Cash<br/>Transfer</i> | <i>Public<br/>Works</i> | <i>Public<br/>Pension</i> | <i>Sub-Total<br/>Welfare<br/>Spending</i> | <i>Housing</i> | <i>Health</i> | <i>Educa-<br/>tion</i> | <i>Total<br/>Social<br/>Spending</i> |
|----------------|-------------------------|--------------------------|-------------------------|---------------------------|---|----------------|---------------|------------------------|--------------------------------------|
| <i>Algeria</i> | 0.0                     | 0.4                      | 0.2                     | 4.6                       | 5.2                                       | 5.5            | 2.6           | 6.1                    | 19.4                                 |
| <i>Egypt</i>   | 1.3                     | 0.2                      | 0.3                     | 2.5                       | 4.3                                       | 2.0            | 1.8           | 4.8                    | 12.9                                 |
| <i>Iran</i>    | 2.7                     | 1.2                      | -                       | 1.5                       | 5.4                                       | 1.5            | 2.4           | 4.0                    | 13.3                                 |
| <i>Jordan</i>  | 0.0                     | 0.9                      | -                       | 4.2                       | 5.1                                       | 0.7            | 5.3           | 6.8                    | 17.9                                 |
| <i>Lebanon</i> | 0.1                     | 0.9                      | -                       | -                         | 1   | -              | 2.2           | 2.5                    | 5.7                                  |
| <i>Morocco</i> | 1.6                     | 0.1                      | 0.2                     | 1.8                       | 3.7                                       | 0.1            | 1.2           | 5.9                    | 10.9                                 |
| <i>Tunisia</i> | 1.7                     | 0.5                      | 0.1                     | 2.6                       | 4.9                                       | 1.7            | 3.0           | 6.9                    | 16.5                                 |
| <i>Yemen</i>   | 0.0                     | 1.0                      | 0.2                     | 0.1                       | 1.3                                       | 0.7            | 2.2           | 7.0                    | 11.2                                 |
| <i>Average</i> | 0.9                     | 0.6                      | 0.2                     | 2.5                       | 3.8                                       | 1.7            | 2.6           | 5.5                    | 13.5                                 |

*Adapted by the author from World Bank, Reducing Vulnerability and Increasing Opportunity: Social Protection in the Middle East and North Africa (2002)*

<sup>62</sup> Tzannatos and Kaur, "Welfare State Policies in the Middle East and North Africa," 159.



In contrast, Jordan and Yemen went further in their welfare reforms in the 1990s. In Jordan, food subsidies were gradually removed and replaced by targeted cash support. In 1996, subsidies were initially replaced with food coupons available to everyone, then a year later the coupons were replaced by a general cash transfer, which was finally replaced by a targeted cash transfer scheme in 1999.<sup>63</sup> In Yemen, wheat pricing and marketing were liberalized in 1999 thereby eliminating the bread subsidy. Further, food subsidies were drastically cut from 5.2 percent in 1997 to reach almost zero percent in 1999.<sup>64</sup> In both countries, as indicated in Table 1.4, targeted cash transfer schemes have become the major mechanisms for social protection among the poor and amounted to 1 percent of their GDP well higher than the regional average of 0.6 percent.

What are the underlying dynamics behind the ongoing process of hidden retrenchment, which has *not* involved the overhaul of any welfare policy framework? More specifically, why has Egypt pursued institutional adaptation entailing dilution of universal benefits, conversion of programs to new beneficiaries, and layering,<sup>65</sup> or the adding of new institutions without replacing pre-existing structures that were established to pursue very different ends? What are the micro-level political influences shaping the retrenchment process on the ground?

In order to address these questions, the dissertation analyzes the development of Egypt's welfare regime since the adoption of a free-market based development strategy in the 1990s. Adopting a historical institutionalist approach, I explore the dynamics driving

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<sup>63</sup> Ibid., 178-179.

<sup>64</sup> Ibid.

<sup>65</sup> Institutional layering involves "the partial renegotiation of some elements of a given set of institutions while leaving others in place." See Thelen, "How Institutions Evolve: Insights from Comparative Historical Analysis," 225.

hidden retrenchment processes in Egypt that are not captured by the state's recent social expenditure patterns, and are not associated with changes in the prevailing welfare policy frameworks. These shifts are significant given their serious implications in terms of welfare regime access by the poor.

In Egypt, the onset of hidden retrenchment has entailed the dilution of universal subsidy benefits<sup>66</sup>, change in access rules of income generation schemes, as well as the set up of the Social Fund for Development (SFD). The latter's establishment as an "autonomous" organization, which officially operates outside the state's structure, marked the introduction of Small and Micro-Enterprise (SME) promotion as a new social protection institution in Egypt's welfare regime.<sup>67</sup> Indeed, small business promotion under the umbrella of the SFD represents a parallel institutional track to the mainstream insurance-based welfare regime, which is based on formal employment. These institutional shifts, while not entailing authoritative changes in welfare policy frameworks, have negative repercussions for the poor's income security and their access to the state's welfare programs. I use the SFD as an analytical window for understanding hidden retrenchment in Egypt's welfare regime. Indeed, the evolution of the SFD's mission, its partnership with pre-existing social programs, and its status as a parallel entity promoting SMES have all shaped the retrenchment process.

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<sup>66</sup> As detailed in chapter II, the subsidy system covered 88 percent of the Egyptians following the neoliberal reforms of the 1990s. Because the state has ceased to register newborns on food ration-cards since 1989, the system became less accessible over time. Between 2007 and 2009, however, the system has once again expanded to cover 36.5 million newborns, thereby bringing its coverage to approximately 60 million people in 2008, or approximately 73.4 percent of the population. Given the extensive coverage of the ration-cards, and the universal subsidy on bread I label the subsidy system as a whole 'universal.'

<sup>67</sup> I use the term "productivist welfare" to refer to social policies that are geared towards promoting economic participation of the poor and their market access.

The dissertation combines the disciplined interpretive single case study method with quantitative regression analysis of SFD allocations, in order to address the questions raised above and to contribute to our broader understanding of the dynamics driving retrenchment in the Middle East. Based on extensive fieldwork between 2005 and 2007, as elaborated in chapter I, the study entailed 145 semi-structured and open-ended interviews with a range of key stakeholders including, donors, government ministries, politicians, the SFD, as well as small and micro-entrepreneurs. Participants were selected by purposeful and random sampling from 11 research sites in six governorates.<sup>68</sup>

This study, in addressing broader theoretical debates regarding the role of external and domestic level variables in shaping welfare state retrenchment in developing states, fills a gap in the literature that is largely focused on the retrenchment experiences of OECD countries. Although recent studies on social policy in the context of development have contributed to theoretical debate on the subject, few investigators have sought to explain the politics of welfare provision in the Middle East. Further, the region has continued to be excluded from cross-regional comparative political economy studies of welfare regimes in the South.<sup>69</sup> Therefore, this research addresses important research questions that have significant impacts on both our understandings of state-society

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<sup>68</sup> Oisín Tansey, "Process Tracing and Elite Interviewing: A Case for Non-Probability Sampling," *Political Science and Politics* XL, no. 4 (October 2007).

<sup>69</sup> Ian Gough, *Welfare Regimes in Development Contexts: A Global and Regional Analysis*, Insecurity and Welfare Regimes in Asia, Africa, and Latin America: Social Policy in Development Contexts (New York: Cambridge University Press, 2004), Jeremy Seekings, "The Politics of Welfare Regimes in The 'South'" (paper to be presented at the Yale Conference on Distributive Politics, New Haven, CT, April/May 2005); and Stephan Haggard and Robert R. Kaufman, *Development, Democracy, and Welfare States: Latin America, East Asia, and Eastern Europe* (Princeton: Princeton University Press, 2008).

relations as well as the political economy of welfare reforms in the Middle East and the developing world.

I contend that the accumulation crisis facing Egypt's statist development model in the late 1980s, and the adoption of market-oriented reforms in response to donor conditionality, opened the space for key actors within and outside the state to articulate a neoliberal agenda for reforming the welfare regime. Both the sustained reduction in food subsidy levels between 1996 and 2005, as well as the introduction of Small and Micro-Enterprise (SME) development as a new social protection institution, are evidence of the neoliberal discourse's influence. The social policy 'paradigm'<sup>70</sup> shift has, however, remained incomplete. This is the case, since the legacy of the country's egalitarian insurance-based regime, and the regime's interests have largely dictated the terms of welfare retrenchment in Egypt.

More specifically, I argue the process of retrenchment has been shaped by two important domestic political dynamics, and to a lesser extent, the internationally dominant neoliberal development discourse. The first domestic dynamic is the authoritarian regime's *power maintenance logic*, in the face of widening support for the Muslim Brotherhood *within* the state's own ranks, specifically among "limited income groups." The term "limited income groups," or *mahdudi el dakhil*, is used in public official discourse to refer to state-linked elements of the lower-middle and middle classes, or state employees, with a household annual income lower than US\$3250.<sup>71</sup>

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<sup>70</sup> I use the term along the lines of Peter Hall to refer to interpretive policy frameworks, see Peter A. Hall, "Policy Paradigms, Social Learning, and the State," *Comparative Politics* 25 (1993): 279.

<sup>71</sup> See for instance, Alaa El Elghatrofy, "Nazif to the Egyptians in the United Arab Emirates: The Issue of Limited Income Groups Is on Our Minds," *Al Masry Al Youm*,

With nearly 20 percent of the population officially living below the poverty line of US\$284, and the average annual state employee salary being US\$1356, members of “limited income groups” are typically non-poor and include lower-middle and even higher segments of the middle classes.<sup>72</sup> Since public employment in Egypt is estimated at approximately nine percent of the total population and represents 25 percent of the labor force, limited income groups constitute a significant social constituency.<sup>73</sup>

The second political dynamic is the prevailing “*moral economy of social entitlements*”, a product of Nasser’s re-distributional policies commonly known as the “social contract.” I use the notion of moral economy to highlight the social embeddedness of Egypt’s welfare policies. More specifically, I define the “moral economy of social entitlements,” as collective beliefs about social citizenship entitlements and just distributional policies.

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December 5, 2006; Hisham Shawqy, "Special Councils: 90% of Civil Servants and the Public Sector Are Limited Income Groups," *Al Masry Al Youm*, October 9, 2006.

<sup>72</sup> In public discourse, limited income groups are defined as those with an annual income lower than L.E12000 per individual (the equivalent of US \$2166) or L.E 18000 per family (the equivalent of US \$3250). Egypt’s lower poverty line is specified at L.E 1116, or roughly \$US 200, while the upper poverty line is L.E. 1574, or \$284, and 19.6% live below the national poverty level according to the United Nations Development Programme, *Human Development Report: Egypt's Social Contract the Role of Civil Society* (Institute of National Planning and United Nations Development Programme, 2008).

<sup>73</sup> Based on 1995 figures Salvatore Schiavo-Campo, Giulio De Tommaso, and Amitabha Mukherjee, "An International Statistical Survey of Government Employment and Wages," *World Bank Policy Research Working Paper* 1806 (November 1999). Egypt’s levels of public employment stand out as one of the highest worldwide. The average in the OECD countries is estimated at 7.7 percent of the population, 6.9 percent in Eastern Europe and the former Soviet Union and 3.9 percent in MENA. See, Salvatore Schiavo-Campo, Giulio De Tommaso and Amitabha Mukherjee, "Government Employment and Pay in Global Perspective: A Selective Synthesis of International Facts, Policies and Experience" *World Bank Policy Research Working Paper* 1771 (May 1997).

Though less significant than domestic political dynamics, the third factor relevant to understanding welfare retrenchment in Egypt is the prevailing *neoliberal development discourse*. In fact, there is evidence that ideas have played a role in both maintaining the retrenchment process, following the implementation of successive Economic Reform and Structural Adjustment Programs in 1991 and 1996, as well as shaping two aspects of the reform process. These are: the reduction of food subsidies' expenditures, on the grounds of the need for greater fiscal discipline and macro-economic balancing; as well as the instituting of small and micro-enterprise promotion as a new social protection mechanism in the welfare regime. The role of neoliberal discourse should not be over-stated, since the state's restructuring record clearly falls short of neoliberal ideals.

Aside from the role of internationally dominant ideas, on balance, external factors have not played a major role in the retrenchment process. While donors have created the initial momentum for retrenchment, through financing the SFD, they did not play a major role in the restructuring process. Evidence from the field highlights not only soft conditionality, and deep-seated disagreements among donors, but also limited technocratic policy learning within the SFD. Further, the structural forces of economic globalization are not relevant to understanding the welfare reform process in Egypt. Over the 1990s, capital, trade, and portfolio flows declined, while access to rents increased. Far from losing the autonomy to allocate funds to the social sector, the state's budget faced low structural constraints emanating from the global economy.

Although the retrenchment process is rooted in a long-standing economic crisis, which culminated in the late 1980s, on the whole, dynamics rooted in the economy do not adequately explain Egypt's retrenchment pattern. In contrast to much of the literature on

social policy in developing countries, the study shows that factors such as the neoliberal reforms agenda, the structural shift in the state's development strategy and fiscal constraints do not significantly explain the process. Rather, retrenchment through dilution, conversion, and layering of institutions has been primarily molded by: the moral economy of social entitlements, the size of program beneficiaries, and the interests and nature of the ruling regime, in addition to the internationally dominant neoliberal development ideas.

Lastly, analyzing the development of the SFD's targeting mechanism and its distributional record reveals that the nature of Egypt's hybrid regime has shaped the micro-politics of retrenchment. The governing regime "shares characteristics of both an autocratic order (characterized by a powerful executive with few formal checks on authority) and a democratic order (which includes institutions that constrain the state and increase governmental accountability)."<sup>74</sup> Overall, retrenchment on the ground has been influenced both by centralized strategic security concerns over definitions and mappings of poverty, as well as more decentralized intra-state struggles within the bureaucracy over loan eligibility criteria. Further, the SFD's allocations over the period 2004-2006 reflect the dual electoral dynamics of exclusion and clientelistic mobilization under Mubarak's hybrid regime.

Whereas the SFD's distributional patterns of micro-credit reflect the state's tendency to fiscally penalize areas with a history of Muslim Brotherhood (MB) support, the

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<sup>74</sup> Bruce K. Rutherford, *Egypt after Mubarak: Liberalism, Islam, and Democracy in the Arab World*, Princeton Studies in Muslim Politics (Princeton: Princeton University Press, 2008), 18. Hybrid regimes are considered in the recent literature as a distinct regime type rather than representing "incomplete" or "stalled" transitions to democracy, they represent a durable mix of authoritarian and democratic institutions. See Larry Diamond, "Thinking About Hybrid Regimes," *Journal of Democracy* 13, no. 2 (2002): 21-35.

allocations of small business loans reflect the clientelistic influence of competing patronage networks affiliated with the ruling National Democratic Party (NDP). Given the ruling party's internal fragmentation, its weak institutionalization, as well as the prevailing majority-run-off system, the politicization of small business loans has been driven by a bottom-up process of NDP leaders claiming resources for factional advantage, rather than a cohesive party machine using loans to build party support.



## **Chapter I**

### **Literature Review and Theoretical Framework**

The question of welfare in the Middle East and North Africa (MENA) has been predominantly approached from the perspective of exploring the responses of civil society to the state's "retreat" and the "dismantling" of its social protection functions, since the enactment of neoliberal reforms in the 1990s. I argue that neglect of the state's policies has created a critical gap in our understandings of the ongoing restructuring of Egypt's welfare regime. The "new" politics of welfare reform literature advances our understanding of on-going processes of social protection systems' restructuring in MENA to a greater extent than studies focused on structural determinants at the international, and the domestic political economy levels. Nonetheless, it needs to be adapted to the region's authoritarian contexts. Building on insights from this literature, I develop in this chapter a theoretical framework for my analysis of Egypt's record of hidden retrenchment.

To set the theoretical background for the study, the following begins with a brief discussion of the scholarship on the welfare state in MENA. In section II, the main propositions with regard to the growth of the welfare state in developed countries are sketched. In section III, the recent comparative studies by political economists on welfare regimes in developing contexts are addressed. Lastly, the literature on the "new" politics of retrenchment is reviewed in section IV. I discuss the various explanations of welfare state retrenchment in advanced industrialized states and developing countries, paying

particular attention to the hypotheses suggested by these bodies of literature and how they might be relevant to the Egyptian case.

### ***I. Welfare Politics in the Middle East***

Despite the foundational importance of welfare norms for the modern state's legitimacy, there have been no systematic theoretical efforts to comparatively investigate the various trajectories of welfare regimes in the region. Instead, the notion of an implicit social contract, whereby the state provides welfare in return for the de-politicization of society, has been widely adopted by regional specialists in reference to "entitlements" that were granted by paternalistic post-colonial states in the region.<sup>75</sup> In the case of Egypt, the concept has been used in reference to Nasser's distributional policies that allocated resources to non-elite groups, through guaranteeing state employment for university graduates, free education, subsidized food, health, housing and energy. These programs predominantly benefited urban-based middle and lower-middle classes. While the "social contract" idea captures an essential aspect of state-society relations in the region, this idea has not led to a nuanced comparative analysis of institutional change processes over time or across countries in the neoliberal age.

Although the economic reform process in the region has generated a rich debate among specialists, social policy continues to be a neglected area of research. For political economists, the focus has been on inconsistencies of reform steps, their gradual pace and the deviation of post-reform political economies from neoliberalism's ahistorical tenets.

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<sup>75</sup>John Waterbury, *The Egypt of Nasser and Sadat: The Political Economy of Two Regimes* (Princeton: Princeton University Press, 1983); Asef Bayat, "Activism and Social Development in the Middle East," *International Journal of Middle East Studies* 34 (2002); Singerman, *Avenues of Participation: Family, Politics, and Networks in Urban Quarters of Cairo*; and Nazih N. M. Ayubi, *Over-Stating the Arab State: Politics and Society in the Middle East* (London: I.B. Tauris, 1995).

While the ‘failure to see results’ has been attributed by some to soft conditionality and elite survival strategies, others have highlighted the relative strength of ‘losers’ and the inability of ‘winners’ to organize and propel reforms forward.<sup>76</sup> Recent studies have moved beyond some of these questions by reinterpreting markets in political terms and conceptualizing reforms as entailing processes of re-regulation as opposed to withdrawal and insulation from rent-seeking distributional coalitions. As suggested by Beatrice Hibou in her thesis on *Privatizing the State*, “it is not so certain that we are witnessing a trend towards retreat or reduced interventionism,”<sup>77</sup> since a new modality of producing the political has emerged in the neoliberal era. Nonetheless, one of the least debated aspects of neoliberal reforms continues to be their impact on the welfare functions of the state.<sup>78</sup>

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<sup>76</sup>Robert Bianchi, *Unruly Corporatism: Associational Life in Twentieth-Century Egypt* (New York: Oxford University Press, 1989); Eberhard Kienle, *A Grand Delusion: Democracy and Economic Reform in Egypt* (New York: I. B. Tauris, 2001); Dieter Weiss, Ulrich Wurzel, and Organisation for Economic Co-operation and Development, *The Economics and Politics of Transition to an Open Market Economy Egypt*, Development Centre Studies (Paris: OECD, 1998); John Waterbury, *Exposed to Innumerable Delusions: Public Enterprise and State Power in Egypt, India, Mexico, and Turkey* (Cambridge: Cambridge University Press, 1993); Daniel Brumberg, "The Trap of Liberalized Autocracy," *Journal of Democracy* 13 (2002): 56-68; Yahya M. Sadowski, *Political Vegetables? : Businessman and Bureaucrat in the Development of Egyptian Agriculture* (Washington, DC: Brookings Institution, 1991); Marsha Pripstein Posusney, *Labor and the State in Egypt : Workers, Unions, and Economic Restructuring* (New York: Columbia University Press, 1997); and Eva Bellin, "The Robustness of Authoritarianism in the Middle East: Exceptionalism in Comparative Perspective," *Comparative Politics* 36, no. 2 (2004): 139-157.

<sup>77</sup>Béatrice Hibou, *Privatizing the State*, The Ceri Series in Comparative Politics and International Studies (New York: Columbia University Press, 2004), 2.

<sup>78</sup>Massoud Karshenas, Valentine M. Moghadam, and United Nations Research Institute for Social Development, *Social Policy in the Middle East: Economic, Political, and Gender Dynamics* (New York: Palgrave Macmillan, 2006); Marsha Posuseny, "Globalization and Labor Protection in Oil-Poor Arab Countries: Racing to the Bottom?" *Global Social Policy* 3, no. 3 (2003): 267-97; and Mariz Tadros, "State Welfare in Egypt

Discussions of the politics of welfare in the region have been strongly influenced by two theoretical propositions. The first proposition is that the dismantling of welfare institutions by autonomous technocratic teams, as part of the break-up of distributional and rent-seeking coalitions, is an essential component of the reform process. Since economic reforms, which were viewed as “first and foremost attempts at rationalizing economic structures”<sup>79</sup> unfolded in the region’s authoritarian political contexts, welfare state dismantling was widely presumed. The second theoretical proposition is that globalization has had important implications not only for state power but also the nature of its welfare initiatives. For instance, based on an ethnography of an urban settlement near Cairo, Julia Elyachar has argued that the adoption of donor-financed micro-credit initiatives has triggered processes of “accumulation by dispossession”, entailing the reconstitution of the poor’s social networks and cultural practices as part of the free market, and rendered the state an inadequate unit of analysis.<sup>80</sup> She stresses that in light of globalization processes, “practices carried out by diverse institutional forms such as the state, international organizations, and NGOs need to be studied together in *one* field of power.”<sup>81</sup> Accordingly, discussions of the contemporary politics of welfare have been based on two implicit premises that: (a) the adoption of neoliberal reforms has entailed the dismantling of social protection policies, and (b) globalization has undermined the state’s power.

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since Adjustment: Hegemonic Control with a Minimalist Role" *Review of African Political Economy* 33, no. 108 (2006).

<sup>79</sup>Henri Barkey, *Economic Crisis and Political Response: The Politics of Economic Reform in the Middle East* (New York: St. Martins Press, 1992), 2.

<sup>80</sup> *Ibid.*, 29.

<sup>81</sup> Julia Elyachar, *Markets of Dispossession: NGOs, Economic Development, and the State in Cairo* (Durham: Duke University Press, 2005), 29. Italics added.

Indeed, since the early nineties, analysts have pointed to cuts in consumer subsidies, the move away from formally guaranteeing public employment and reductions in social services as, in effect, bringing an end to the state's welfare functions. As explicitly articulated by Salwa Ismail, in her recent ethnographic study of Cairo's Bulaq al-Dakrur neighborhood, given the move "away from a welfarist rationality to a neoliberal rationality of government, the notion of the social contract can longer provide an explanatory framework for understanding state-society relations."<sup>82</sup> In fact, since the early 1990s, scholars have echoed this characterization of state-society relations and alternatively approached the question of welfare in the region from two perspectives. The first has focused on exploring the social response of the poor to their increasing exclusion through highlighting survival strategies, such as the "quiet encroachment of the ordinary"<sup>83</sup>, and assessing their political significance.<sup>84</sup> The second perspective has emphasized ethnic, kin-based and Islamist activities that have mushroomed in response to the state's 'retreat'.<sup>85</sup> The latter set of literature has in turn centered on two debates: the

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<sup>82</sup> Salwa Ismail, *Political Life in Cairo's New Quarters: Encountering the Everyday State* (Minneapolis: University of Minnesota Press, 2006), Xiii. Instead the author makes the case for a "security state" framework of analysis emphasizing policing efforts by the neoliberal state in its encounters with the marginalized.

<sup>83</sup> Assef Bayat, *Street Politics: Poor People's Movements in Iran* (New York: Columbia University Press, 1997), 2-21.

<sup>84</sup> Ismail, *Political Life in Cairo's New Quarters: Encountering the Everyday State*; Bayat, *Street Politics: Poor People's Movements in Iran*; Singerman, *Avenues of Participation : Family, Politics, and Networks in Urban Quarters of Cairo*.

<sup>85</sup> Saad Eddin Ibrahim, "Egypt's Islamic Activism in the 1980s," *Third World Quarterly* 10, no. 2 (1988); Janine A. Clark, *Islam, Charity, and Activism: Middle-Class Networks and Social Welfare in Egypt, Jordan, and Yemen*, Indiana Series in Middle East Studies (Bloomington: Indiana University Press, 2004); Quintan Wiktorowicz, *Islamic Activism: A Social Movement Theory Approach*, Indiana Series in Middle East Studies (Bloomington: Indiana University Press, 2004); and Anne Marie Baylouny, "Creating Kin: New Family Associations as Welfare Providers in Liberalizing Jordan," *International Journal of Middle East Studies* 38 (2006).

nature of Islamist social activism, particularly its links to political Islam and its class basis, as well as the impact of globalization on the nation-state.

While the regional literature on the politics of welfare captures important elements of reality, by shifting the locus of analysis exclusively to social actors and echoing arguments emphasizing convergence around a minimal social welfare regime in poor countries<sup>86</sup>, it has obscured important reconfigurations in the region's welfare regimes. Indeed, a critical gap in the scholarship has emerged given the lack of analysis of the actual politics of retrenchment processes themselves, whose unfolding significantly varied across countries and differentially affected groups in society. In light of the dismissal of the state's relevance to welfare issues in the region, the literature has also overlooked the political dynamics influencing new social policy choices and the latter's important role in sustaining the region's authoritarian regimes.

## ***II. The Origins and Types of Developed Welfare States***

Building on the Keynesian hypothesis that social expenditures stimulate aggregate demand and moderate business cycles, the first generation of welfare state literature emphasized growing convergence among states in this area linking the expansion of the state's social role to modernization processes. "Welfare state expansion was for social science not a puzzle but a given. With the West in the lead, it seemed only a matter of time before less developed nations would modernize sufficiently to develop the economic

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<sup>86</sup> Nita Rudra, "Globalization and the Decline of the Welfare State in Less-Developed Countries," *International Organization* 56, no. 2 (Spring 2002).

surplus and bureaucratic capacity that would allow them to initiate similar programs.”<sup>87</sup>

At the core of early studies from Marxist and Weberian traditions, was the functionalist emphasis on welfare state expansion as a product of changes in socioeconomic structures. Thus, the logic of industrialism framework traced the roots of welfare states to the process of industrialization and its demographic and bureaucratic correlates. More specifically, the emphasis has been on the displacement of the traditional role of the family and increasing dependence on wage labor, which created vulnerable social groups unable to participate in the market.<sup>88</sup> In this view, the state’s welfare functions expanded more or less automatically in response to the inability of traditional social institutions to cater to new uncertainties and vulnerabilities.<sup>89</sup> Similarly, for neo-Marxists, the changing relations of production or the logic of capitalism drove welfare state expansion.<sup>90</sup> According to this perspective, the capitalist state seeks to fulfill the dual contradictory functions of accumulation and legitimation, according to O’Connor’s classic *The Fiscal Crisis of the State* (1973). Here, public “expenditures have a twofold character corresponding to the capitalist state’s two basic functions: social

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<sup>87</sup> Jill Quadagno, "Theories of the Welfare State," *Annual review of sociology* 13 (1987): 110.

<sup>88</sup> Clark Kerr, *Industrialism and Industrial Man: The Problems of Labor and Management in Economic Growth*, 2nd ed. (New York: Oxford University Press, 1964); Harold L. Wilensky, *The Welfare State and Equality: Structural and Ideological Roots of Public Expenditures* (Berkeley: University of California Press, 1975); Fred Pampel, and Jane Weiss "Economic Development, Pension Policies and the Labor Force Participation of Aged Males: A Cross National, Longitudinal Analysis," *American Sociology Review* 89 (1983).

<sup>89</sup> Claus Offe, "Advanced Capitalism and the Welfare State," *Politics and Society* 2, no. 4 (1972); Pampel, "Economic Development, Pension Policies and the Labor Force Participation of Aged Males: A Cross National, Longitudinal Analysis."

<sup>90</sup> Offe, "Advanced Capitalism and the Welfare State."

capital and social expenses.”<sup>91</sup> While the former category includes indirectly productive expenditures, involving investments that promote private accumulation by raising labor productivity, profit margins as well as consumption levels, the latter is not even indirectly productive, yet are “required to maintain social harmony” and enhance the state’s legitimacy.<sup>92</sup>

The unraveling of the Keynesian consensus in the mid-seventies and cross-national findings calling into question the basic premise that industrialization and welfare state development are positively correlated ushered in a new generation of writings.<sup>93</sup> In contrast to early studies, the emphasis in the second generation of welfare state literature is on explaining the diversity of welfare state models in the West. Shifting the focus to political dynamics, neo-Marxist theorists moved beyond functionalist analysis to highlight the role of class struggles and political conflict in shaping welfare expansion.<sup>94</sup> The “power resource approach” suggested that differences in pathways of welfare state development could be attributed to the relative strength of leftist parties and trade unions.<sup>95</sup>

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<sup>91</sup> James O'Connor, *The Fiscal Crisis of the State* (New York: St. Martin's Press, 1973), 20-21.

<sup>92</sup> Ibid.

<sup>93</sup> David Collier, and Richard Messick, "Order Versus Diffusion: Testing Alternative Explanations of Social Security Adoption," *American Political Science Review* 69 (1975).

<sup>94</sup> Michael Shalev, "The Social Democratic Model and Beyond: Two Generations of Comparative Research on the Welfare State," *comparative social research* 6 (1983); David R. Cameron, "The Expansion of the Public Economy," *American Political Science Review* 72 (1978).

<sup>95</sup> Walter Korpi, *The Working Class in Welfare Capitalism: Work, Unions, and Politics in Sweden*, International Library of Sociology (London: Routledge & Kegan Paul, 1978); Alexander M. Hicks, *Social Democracy and Welfare Capitalism : A Century of Income Security Politics* (Ithaca: Cornell University Press, 1999).



Another strand of the literature highlighted the role of the bureaucracy in the development of social policy<sup>96</sup> while state-centric scholars adopted an institutionalist approach emphasizing policy legacies, state capacity and institutional structures as independent variables responsible for variations in welfare policies across industrialized states.<sup>97</sup> As elaborated in sections IV and V, state-centric arguments influenced the current debate over the politics of retrenchment and are adopted in this study to analyze Egypt's politics of retrenchment.

Esping-Andersen's influential *Three Worlds of Capitalism* (1990) marked an important turn in the welfare state literature. In a departure from earlier comparative studies, which focused primarily on expenditure levels as an indicator for welfare state efforts, Esping Andersen adopted a regime approach distinguishing among states based on their institutional logic for designating welfare functions to the state, market and family.<sup>98</sup> The relevant dimensions of welfare policies in his classification are: degree of de-commodification, or the ability of workers to subsist independently of markets, resulting levels of stratification of social classes as well as state versus market orientation of welfare provision.

On these bases, Esping-Andersen contends that states systematically vary and tend to cluster around three ideal types. *Liberal welfare regimes* entail modest financial provision to targeted groups in a limited array of situations. Public provision is residual

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<sup>96</sup> Hugh Hecl, *Modern Social Politics in Britain and Sweden: From Relief to Income Maintenance*, Yale Studies in Political Science (New Haven: Yale University Press, 1975).

<sup>97</sup> Theda Skocpol, *Protecting Soldiers and Mothers: The Political Origins of Social Policy in the United States* (Cambridge: Belknap Press of Harvard University Press, 1992).

<sup>98</sup> Esping-Andersen, *The Three Worlds of Welfare Capitalism*.

in that the state only fills gaps left by the market, but its targeting means that it is nonetheless redistributive. *Social democratic welfare regimes* are more generous, universal and aspire to socialize all risks. Here, the state actively assumes roles traditionally performed by the family, and seeks to minimize the role played by the market. Lastly, the *conservative welfare regimes* provide differential benefits, and the basis is social insurance not assistance. The latter regimes emphasize the roles played by families; public policies buttress rather than undermine the familial role. Although Esping-Andersen's typology has been the subject of criticism for overlooking gender dynamics<sup>99</sup> and has been revised by himself and other analysts, his regime approach has significantly shaped subsequent research.<sup>100</sup> In this study, I adapt Esping-Andersen's welfare regime approach to the Egyptian context. As elaborated in section III, I label its regime up to the late 1980s an "*insurance-based egalitarian regime*", since it incorporated both the differential benefits of conservative welfare regimes as well as a major universal non-contributory component, in the form of food subsidies.

### ***III. Welfare states in the South***

Despite the fact that the study of the welfare state in developed countries spanned over half a century and resulted in sophisticated understandings of both the origins as well as varieties of welfare regimes, scholars have only recently explored the topic in developing countries. Underlying the critical gap in the literature have been three

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<sup>99</sup> Ann Shola Orloff, *The Politics of Pensions: A Comparative Analysis of Britain, Canada, and the United States, 1880-1940* (Madison: University of Wisconsin Press, 1993); Gosta Esping-Andersen, *Social Foundations of Postindustrial Economies* (New York: Oxford University Press, 1999).

<sup>100</sup> See discussion in Evelyn Huber and John D. Stephens, "Welfare States and the Economy" in *The Handbook of Economic Sociology*, ed. Neil J. Smelser and Richard Swedberg (Princeton: Princeton University Press, 2005).

persistent and problematic assumptions. The first assumption concerns the irrelevance of the notion of welfare states to contexts in which industrialization has been weak and a large segment of the labor force is outside the formal market. The link between industrialization and the institutionalization of welfare measures, however, has been called into question by scholars highlighting the role of policy diffusion since the seventies in this area.<sup>101</sup>

The second assumption is that welfare entitlements in the developing world have been predominantly granted by the state in a top-down fashion rather than being rights won as a result of democratic struggles by the working classes. The viewpoint is echoed by scholars, such as Esping-Andersen, whose formulation of the welfare state concept seems to hardly stretch beyond rich states in the OECD. Qualified as “more than the sum of social policies”, welfare states, according to him, entail institutionalized commitment to meeting a comprehensive array of human needs as guaranteed citizens’ rights. The welfare state is a unique institution marking a distinct historical epoch in which “the nation state made a double, and binding, commitment: granting citizens social rights and claims on government and guaranteeing that it would uphold the welfare of the entire social community.”<sup>102</sup> However, in his more recent work, Esping-Andersen addresses the trajectories of welfare regimes in developing countries in Latin America, East Asia and the transition states of Eastern Europe while avoiding further developing his typology.<sup>103</sup>

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<sup>101</sup> Paul Pierson, *Politics in Time: History, Institutions, and Social Analysis* (Princeton: Princeton University Press, 2004).

<sup>102</sup> Esping-Andersen, "Welfare States and the Economy," in *The Handbook of Economic Sociology*, ed. Neil J. Smelser and Richard Swedberg (Princeton: Princeton University Press, 1994), 713.

<sup>103</sup> Esping-Andersen and United Nations Research Institute for Social Development, *After the Golden Age: The Future of the Welfare State in the New Global Order*.

The link between democracy, social rights and welfare state expansion seems to be overstated, however, considering that the origins of social insurance are often traced back to Bismarck's authoritarian regime in Germany. Further, policy diffusion processes have translated into the enactment of social citizenship rights in the South as part of the nation state-making project.<sup>104</sup>

The third assumption is that, given the presence of significant levels of poverty even in middle-income countries, the welfare state framework is inapplicable. Instead, the proponents of this perspective prefer to adopt development as an alternative analytical framework. This position in part reflects the dependent variable problem or the confusion of outcomes with policies themselves. While developing countries, such as Egypt, clearly face enormous challenges in terms of poverty alleviation and their welfare policies are insufficient, it is hard to ignore the state's assumption of welfare functions since the 1930s. Further, the conceptual tensions between welfare and development is overstated since the pursuit of welfare, or sustainable survival and well being, has been among the key goals of development studies since the fifties.<sup>105</sup>

The comparative study of welfare state development in the South is fairly recent and the theoretical debate is embryonic.<sup>106</sup> While cross-national studies utilized quantitative approaches to explore the link between expenditure levels and a range of

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<sup>104</sup> Pierson, *Politics in Time: History, Institutions, and Social Analysis*.

<sup>105</sup> For more on this debate, Ian Gough and Geoffrey D. Wood, "Introduction," in *Insecurity and Welfare Regimes in Asia, Africa, and Latin America: Social Policy in Development Contexts* (New York: Cambridge University Press, 2004).

<sup>106</sup> Gough, *Welfare Regimes in Development Contexts: A Global and Regional Analysis*; Seekings, "The Politics of Welfare Regimes in The 'South';" Haggard and Kaufman, *Development, Democracy, and Welfare States: Latin America, East Asia, and Eastern Europe*; and Richard Sandbrook Ed, *Social Democracy in the Global Periphery: Origins, Challenges, Prospects* (New York: Cambridge University Press, 2007).

political variables, qualitative studies predominantly focused on economic and organizational aspects of welfare systems.<sup>107</sup> Efforts to bring the “social” back into discussions of economic reforms and move beyond the residual designation of social policy have been revived by UNRISD volumes on social policy in development contexts.<sup>108</sup> Further, questions regarding activating the state’s social role in the wake of the Asian financial crisis and the emergence of a post-Washington consensus have helped bring the question of welfare policies in the South to the foreground.<sup>109</sup> Nonetheless, the volume of this literature remains small and empirically oriented.

Along the lines of Esping-Andersen’s seminal work, recent studies on developing welfare states have also focused on identifying the varieties of welfare regime types in the South.<sup>110</sup> Indeed, attempts to theorize welfare regimes and develop relevant typologies have revolved around reformulating the notion of labor de-commodification which, according to welfare state theorists, involves “placing human capital on center stage” based on the logic that “productivity necessitates social security, equality of resources and an active investment in people.”<sup>111</sup> While Ian Gough and Geof Wood

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<sup>107</sup> Economic Research Forum for the Arab Countries Iran and Turkey, Heba Ahmad Handoussa, and Zafiris Tzannatos, *Employment Creation and Social Protection in the Middle East and North Africa* (Cairo: American University in Cairo Press, 2002); Markus Loewe, "New Avenues to Be Opened for Social Protection in the Arab World: The Case of Egypt," *International Journal of Social Welfare* 13 (2004); Carmelo Mesa-Lago, *Changing Social Security in Latin America: Toward Alleviating the Social Costs of Economic Reform* (Boulder: Lynne Rienner, 1994).

<sup>108</sup> P. Thandika Mkandawire, *Social Policy in a Development Context* (New York: Palgrave Macmillan, 2004).

<sup>109</sup> Bob Deacon, "From 'Safety Nets' Back to 'Universal Social Protection' Is the Global Tide Turning?," *Global Social Policy* 5, no. 1 (2005).

<sup>110</sup> Gough and Wood, "Introduction," 5.

<sup>111</sup> Gosta Esping-Andersen, “Welfare States and the Economy” in Eds Neil Smelser and Richard Swedberg *The Handbook of Economic Sociology* (Princeton: Princeton UP, 1994), 723.

adapt the notion, in order to draw distinctions among regime types depending on the prevalence of patronage ties in the contexts of weak states<sup>112</sup>, Nita Rudra links it to the overall orientation of the state's development strategy.<sup>113</sup>

In their comparative study *Insecurity and Welfare Regimes*, Gough and Wood complement the notion of de-commodification with de-clientization or "social development (in the sense of enabling autonomy or empowerment),"<sup>114</sup> as classifying criteria for welfare regimes. Since the developing state's legitimacy is often contested and its capacity to compensate for market inequality is limited, due to poorly functioning labor and financial markets, the authors make the case for including non-state actors in the analysis. Thus, while Esping-Andersen's framework treats the state as a key institutional actor, with both the market and family constituting dependent co-actors in the prevailing welfare matrix, Gough and his collaborators widen the framework to include both the community as well as international actors.<sup>115</sup>

On these bases, the authors develop a revised typology of developing welfare regimes. Aside from the conventional category of welfare state regimes, the authors suggest "informal security regimes", in which the community plays the biggest role in meeting welfare needs as well as "informal insecurity regimes", which refers to cases where gross insecurity prevails, the welfare roles of both the state and the community are

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<sup>112</sup> Geof Wood and Ian Gough, "A Comparative Welfare Regime Approach to Global Social Policy," *World Development* 34, no. 10 (2006): 1696-1712; and Gough and Wood, "Introduction."

<sup>113</sup> Nita Rudra, "Welfare States in Developing Countries: Unique or Universal?," *Journal of Politics* 69, no. 2 (2007).

<sup>114</sup> Wood and Gough, "A Comparative Welfare Regime Approach to Global Social Policy," 1697.

<sup>115</sup> Gough and Wood, "Introduction."

undermined while external players play a major role.<sup>116</sup> Using cluster analysis of social spending<sup>117</sup> as well as ratios of international flows and remittances to the GNP, as measures of the prevailing institutional responsibility matrix, in addition to the Human Development Index (HDI), as a measure of welfare outcomes, the authors map welfare regimes in the developing world.<sup>118</sup> The analysis results in identifying four clusters of developing welfare regimes: *actual or potential welfare regimes* mostly in Central Europe, *more effective informal security regimes* in Latin America, *less effective informal security regimes* predominantly in South Asia and *externally dependent insecurity regimes* in sub-Saharan Africa.

Although Gough and Wood's statistical analysis does not incorporate the family and community as welfare domains, the resulting typology provides a powerful schema for broad cross-regional comparisons. Like other statistical studies of welfare regimes, however, its accuracy for classifying welfare regimes is questionable. In the case of Egypt, for instance, high levels of international aid and rents combined with low HDI ranking may misleadingly place it within the category of insecurity regimes. As will be demonstrated in this study, however, high international dependence in Egypt's case does not coincide with a limited role for the state in welfare provision. The typology is also less useful for understanding how varying regime patterns across the world correlate with, or are causally linked to, the prevailing economic structures, cultural norms or socio-political processes. Accordingly, it provides limited insights into the dynamics and differential patterns of retrenchment across welfare regimes within the Middle East.

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<sup>116</sup> Gough, *Welfare Regimes in Development Contexts: A Global and Regional Analysis*.

<sup>117</sup> They incorporate spending on health and education

<sup>118</sup> The authors use 59 cases in their analysis Ibid., 43-44.

Lastly, building on their typology of welfare regimes, Gough and Wood propose that effective policy interventions should correspond with welfare regime types. On this basis, they argue that micro-finance programs are particularly suited for the promotion of de-clientization and the expansion of autonomy in the case of informal security regimes. This policy recommendation, however, is empirically questionable and needs to be further qualified. Indeed, as my analysis of the Social Fund for Development (SFD)'s distributional politics in chapter V shows, the Egyptian experiment with micro-finance initiatives demonstrates their politicized implementation.

Nita Rudra in “Welfare States in Developing countries: Unique or Universal?” uses cluster analysis to identify systematic differences in the distribution regimes of thirty-two developing countries. In contrast to Esping-Andersen's work, her argument rests on the contention that “the capacity to ‘commodify’ is the key factor differentiating LDC welfare states.”<sup>119</sup> According to Rudra, unlike advanced welfare states post-World War II, “the primary source of tension” that gave rise to “the state's larger role in managing and organizing the economy” has been the “absence of proletarianization”<sup>120</sup>. In developing contexts, the state's intervention is not geared towards the elimination of *internal* ‘class, inequality and privilege’ as it has been in the OECD nations<sup>121</sup> but rather “minimizing *external* divisions between the rich and poor economies by expanding wage labor and ‘catching up’ with the industrialized nations.”<sup>122</sup>

Accordingly, Rudra distinguishes between *protective welfare states*, which place greater priority on decommodification prior to full-scale commodification efforts, and

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<sup>119</sup> Rudra, "Welfare States in Developing Countries: Unique or Universal?," 382.

<sup>120</sup> Ibid.

<sup>121</sup> Esping-Andersen, *The Three Worlds of Welfare Capitalism*.

<sup>122</sup> Rudra, "Welfare States in Developing Countries: Unique or Universal?," 382.



*productive welfare states*, which primarily focus on encouraging wage-labor. On the one hand, protective welfare regimes are the product of statist political economies that eschewed emphasis on international markets. These regimes extend allowances to both firms (such as tariffs and subsidies) as well as a privileged stratum of workers while seeking to preserve state authority by creating divisions among social groups.<sup>123</sup> On the other hand, productive welfare regimes, which pursued export-oriented production and cost containment, adopt more limited social policies serving the interests of workers and employers.<sup>124</sup> Using a combination of policy, spending and outcome variables, the author's cluster analysis identifies also a third category of welfare regimes she labels "weak dual welfare" states, designating states that emphasize the proletarianization process but to a lesser extent than productive welfare states (such as Mexico, Argentina and Brazil).<sup>125</sup>

While the study moves beyond the deficiencies of linear analyses focusing strictly on levels of social expenditure, it critically overlooks the role of domestic *political* dynamics in shaping welfare policies and the variations in the patterns of developing states embeddedness in the world economy. Indeed, implicit in Rudra's analysis is the assumption that the developing state's *raison d'être* is the pursuit of a "modern industrial order" which is predicated not only upon the expansion of wage labor but also on integration of developing states into international markets. Absent from her analysis, is

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<sup>123</sup> Variables used to identify these states were: level of public employment, spending of social security and welfare, housing subsidies, labor market protection and investment in tertiary education.

<sup>124</sup> Aside from outcome indicators measuring living standards, the author determines the level of commodification using levels of public investment in primary and secondary education, and basic healthcare, as well as literacy rates, rates of infant mortality and the percentage of infants vaccinated against DPT.

<sup>125</sup> *Ibid.*, 484.

serious consideration of the legitimacy *problematique* developing states typically face and the historic link between welfare provision and modern state-building processes, which I elaborate in chapter II.

In contrast to Wood and Gough, in the “The Politics of Welfare Regimes in the ‘South’,”<sup>126</sup> Jeremy Seekings makes the case for using the welfare state framework. He asserts that late industrializing countries, such as South Korea, Brazil or India have capitalist economies, with significant expenditure on the social category, and are actually highly redistributive in some contexts, such as South Africa. Adopting a comparative historical approach, the author draws a fundamental distinction between welfare regimes that extend citizenship-based rights and pursue the de-commodification of labor, through universal social assistance programs, on the one hand, and those that extend employment based social rights, centered on social insurance and excluding most of the poor, on the other.

According to Seekings, the evolution of welfare regimes in the Third World is marked by four historical stages. The first stage entailed struggles over the introduction of insurance-based welfare for public sector and industrial workers in the early 20<sup>th</sup> Century. The second stage was the agrarian crisis and spread of urban poverty in the 1950s leading to the formation of either *agrarian* or *redistributive* welfare regimes. The third stage in the evolution of developing welfare regimes entailed the broadening of insurance-based *inegalitarian corporatist* regimes to cover more segments of the population in the second half of the 20<sup>th</sup> Century. Lastly, the most recent stage has been marked by the extension of income security, through non-contributory social assistance.

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<sup>126</sup>Seekings, "The Politics of Welfare Regimes in The 'South'."

This development accompanied massive de-agrarianization and democratization at the end of the 20<sup>th</sup> Century.

Focusing on the income security or welfare policies nexus<sup>127</sup>, Seekings proposes a typology of welfare regimes consisting of three ideal types:<sup>128</sup> *agrarian regimes*, defined by the private provision of welfare dependent on access to land and/ or kin, which in turn requires supportive state policies; *redistributive regimes*, which extend non-contributory social assistance as a citizenship right;<sup>129</sup> and lastly, *in-egalitarian corporatist regimes*, in which social benefits are unequal and employment based.<sup>130</sup>

In this study, I adapt Esping-Andersen's and Seekings' classifications to characterize Egypt's welfare regime prior to retrenchment which I label as an *insurance-based egalitarian* regime. As I elaborate in chapter II on the historical development of Egypt's welfare state, income security has been instituted under the ILO's influence through "forms of risk-pooling and/or saving that are dependent on employment."<sup>131</sup> Coverage, initially restricted to the urban-based working class, has broadened extensively but continues to be differentiated and dependent on membership of occupationally defined corporate groups. Nonetheless, in order to promote equitable outcomes, the

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<sup>127</sup> According to Seekings, welfare state regimes, or distributional regimes, in the South are shaped by the package of social programs, labor market policies as well as the growth paths of domestic political economies. However, he focuses on income security policies in his study.

<sup>128</sup> The author contends that countries tend to combine elements of two if not all three kinds of regimes.

<sup>129</sup> The authors also refers to a potential fourth category the "Islamic charity regime", which allow individuals to maintain a minimum income separate from the market, state or kin, but he does not develop this argument.

<sup>130</sup> According to Seekings, inegalitarian corporatist regimes come in two versions "the more market version (either provident funds as in Singapore etc, or employer-based schemes) and the more statist one (formal social insurance)." See Seekings, "The Politics of Welfare Regimes in The 'South,'" 13.

<sup>131</sup> Ibid., 13.

insurance-based system incorporated an upper ceiling on pensionable salaries. Unlike the experiences of some countries in Latin America, Egypt's welfare regime has also until the late 1980s included a significant egalitarian non-contributory component, in the form of a universal food subsidy system. Until the onset of retrenchment, public expenditure on the subsidy system and the welfare regime as a whole surpassed indirect taxes that predominantly affect the poor.

#### ***IV. The Politics of Retrenchment***

The advanced welfare state, since the 1970s, has been challenged both by exogenous and endogenous pressures, which have combined to create a disjuncture between evolving social risks and institutionalized policies.<sup>132</sup> Exogenous pressures included slower economic growth, fiscal strain, deindustrialization, rising unemployment as well as population aging. As for endogenous pressures, they resulted from changes in the family structure, increasing differentiation of occupational structures in addition to changes in the typical life cycles.<sup>133</sup> Similarly, in the developing world, declining growth levels, the debt crisis, rising unemployment, and expanding informal sectors have raised questions about the viability of welfare state commitments. Although the resulting changes in social policies were not uniformly in the direction of cutbacks, or the rolling back of the welfare state, the scholarship has predominantly focused on exploring both the degree and determinants of welfare state retrenchment. Nonetheless, as argued by Pierson: "Despite the broad consensus that welfare states everywhere are in trouble, there has been limited progress in untangling the factors that might be generating the difficulty,

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<sup>132</sup> See Esping-Andersen and United Nations Research Institute for Social Development., *After the Golden Age : The Future of the Welfare State in the New Global Order*.

<sup>133</sup> Ibid.

specifying the processes through which these factors exert pressures on national welfare states, or determining their relative significance.”<sup>134</sup>

Three major strands of literature have framed the ongoing debate over welfare state changes in the South. The first strand emphasizes the role of *external dynamics*, such as structural constraints emanating from the international economy, the role of donors and their policy ideas, in instigating convergence around a residual minimal model. The second set of writings approaches the question of welfare policy changes within the context of *the domestic politics of structural adjustment*, coalition management and ongoing shifts in development strategies. Seeking to emphasize that politics matters in the context of welfare policy reforms, a third set of studies calls into question some of the key premises of the earlier approaches by emphasizing the impacts of democratization, policy legacies, path dependency as well as political institutions. This dissertation is an attempt to contribute to this third strand of writings, which I label the *politics of welfare reforms* literature.

This section begins with a discussion of the literature on external dynamics shaping welfare policy reforms, next, the scholarship on the politics of economic reforms is addressed and lastly, the recent body of works on the politics of welfare state restructuring is presented.

#### **A. External Influences**

Global structural constraints were often emphasized in the early literature on welfare state retrenchment. Studies attributed the changing character of welfare state politics in industrialized countries to increased market openness as well as rising levels of

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<sup>134</sup> Paul Pierson, "The Welfare State at Century's End," in *The New Politics of the Welfare State*, ed. Paul Pierson (New York: Oxford University Press, 2001).

cross-border trade and capital flows, which compel governments to redefine the state's social role. Trade openness has been commonly hypothesized to raise competitive pressures on exposed sectors, thereby penalizing producers operating under more generous welfare regimes. In addition, as Ramesh Mishra argues: "By providing capital with an 'exit option', globalization has strengthened the bargaining power of capital very considerably against government as well as labor."<sup>135</sup> Since governments depend on capital to create jobs, a common conclusion has thus been that states across the world are driven to compete in stimulating business confidence and attracting foreign investment.<sup>136</sup> Subsequent studies have not only sought to refine the analysis by disaggregating the globalization and social expenditure variables<sup>137</sup>, but also contested the conventional wisdom that the sustainability of developed welfare states is in tension with economic globalization dynamics. Thus, studies by Geoffrey Garret (1998) and Dani Rodrick (1997) provided statistical evidence that trade openness has led to compensatory social spending in OECD countries while financial integration has been found to result in mixed outcomes for the welfare state.<sup>138</sup>

Assessments of recent welfare policy reforms in the developing world have drawn on the broader theoretical debate about globalization and its implications for state power. A common theme in the early literature is the growing convergence among

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<sup>135</sup> Ramesh Mishra, *Globalization and the Welfare State* (Cheltenham: Edward Elgar Publishing, 1999), 6.

<sup>136</sup> Susan Strange, *The Retreat of the State: The Diffusion of Power in the World Economy* (Cambridge: Cambridge University Press, 1996).

<sup>137</sup> See for instance Brian Burgoon, "Globalization and Welfare Compensation: Disentangling the Ties That Bind," *International Organization* 55, no. 3 (2001).

<sup>138</sup> Evelyne Huber and John D. Stephens, *Development and Crisis of the Welfare State: Parties and Policies in Global Markets* (Chicago: The University of Chicago Press, 2001); Layna Mosley, *Global Capital and National Governments* (New York: Cambridge University Press, 2003).

developing states, driven by a race to the bottom as nations pursue trade liberalization and strive to reduce tax rates, in order to court foreign investment. While the “compensation hypothesis” has been upheld in statistical analyses of European states, analysts have emphasized the applicability of the “efficiency hypothesis” in the South. The latter, refers to the notion that as economies are exposed more to international competition, “the incentives for governments to curb social spending grow more powerful, while the political costs of doing so decline.”<sup>139</sup> Kaufman and Ubierno, for instance, argue that trade openness among Latin American countries resulted in decreases in social spending while integration into capital global markets had a more ambiguous effect.<sup>140</sup> They do not, however, offer definitive answers about the validity of competing explanations for the links among globalization, political pressures and social expenditures.<sup>141</sup> Similarly, Rudra (2002) makes the case that in the era of globalization, welfare state spending trends in developed and developing states have diverged due to the weakness of labor in the latter. Thus, greater integration into the global economy, as measured by trade and capital flows, has translated into declining social spending levels and welfare state dismantlement in developing states.<sup>142</sup> Although Wibbles’ recent analysis also demonstrates declining spending levels, he attributes decreasing welfare expenditure by developing welfare states to their distinct pattern of integration into the global economy, which undercuts their capacity to smooth consumption across business

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<sup>139</sup> Robert R Kaufman and Alex Segura-Ubierno, "Globalization, Domestic Politics, and Social Spending in Latin America: A Time-Series Cross-Section Analysis, 1973-97," *World Politics* 53, no. 4 (2001), 556.

<sup>140</sup> Ibid.

<sup>141</sup> Ibid., 581

<sup>142</sup> Rudra, "Globalization and the Decline of the Welfare State in Less-Developed Countries."

cycles.<sup>143</sup> According to him, while OECD states can respond to volatility and income shocks by borrowing on capital markets and spending counter-cyclically on social programs, these policy options are typically unavailable for developing states.

Notwithstanding the importance of this literature in identifying general trends across the South, it is not useful for the purposes of analyzing the puzzle at hand. Aside from the fact that social expenditure levels have relatively increased in relation to the size of the economy and have remained constant on a per capita basis, as will be demonstrated in chapter III, the Egyptian welfare state has faced low constraints emanating from the global economy. Indeed, levels of international trade, capital and portfolio investment have not increased during the onset of retrenchment policies in the 1990s. In other words, findings indicate that economic globalization is not relevant to the analysis of welfare state restructuring in the Egyptian case.

Another set of externally driven explanations of social policy reforms focuses on the role of donors. Aside from markets and linkages, Stallings emphasizes leverage or “the direct use of power, with a promise of reward (or a threat of punishment) for carrying out (or not) a desired policy”<sup>144</sup> as a key dynamic shaping the reform process. Similarly, Huber and Stephens argue that the debt crisis in Latin America, led to the adoption of neoliberal economic reforms, “a process largely guided by the International Financial Institutions (IFIs)” that “required reforms of the traditional social security

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<sup>143</sup> Erik Wibbels, "Dependency Revisited: International Markets, Business Cycles, and Social Spending in the Developing World," *International Organization* 60, no. 2 (2006).

<sup>144</sup> Barbra Stallings, "International Influence on Economic Policy: Debt, Stabilization and Structural Reform," in *The Politics of Economic Adjustment: International Constraints, Distributive Conflicts, and the State*, ed. Stephan Haggard and Robert R. Kaufman (Princeton: Princeton University Press, 1992), 55.



systems.”<sup>145</sup> According to this literature, with the adoption of the “adjustment with a human face” agenda in the late 1980s, IFIs became directly involved in social policy reforms. The interest by IFIs in reforming developing welfare states stemmed not only from recognition that social security systems may potentially endanger fiscal discipline and macro-economic stability, but also that safety nets are needed to alleviate the impact of neoliberal reforms on the poor.<sup>146</sup> In fact, following the Asian financial crisis and the G8 request for the formulation of “good practices of social policy,”<sup>147</sup> the World Bank sanctioned “social protection”, or public measures to provide income security for individuals.<sup>148</sup> In other words, international donors continue to play an important role in shaping the direction of change in developing welfare regimes. I explore the relevance of donors to Egypt’s political economy of retrenchment in chapter III. I argue that donor influence over the trajectory of Egypt’s old welfare policies, in the areas of subsidies, pensions and cash transfers, has been overall rather limited. Further, the SFD’s set-up and the evolution of its mission demonstrate that divisions among donors, the country’s access to multiple sources of foreign grants and soft loans as well as the unwillingness of donors to press for specific benchmarks, have weakened donor influence over the retrenchment process.

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<sup>145</sup> John D. Stephens and Evelyne, "Welfare States and the Economy," 564.

<sup>146</sup> Evelyne Huber, "Globalization and Social Policy Development in Latin America," in *Globalization and the Future of the Welfare State*, ed. Miguel Glatzer and Dietrich Rueschemeyer (Pittsburgh: University of Pittsburgh Press, 2005).

<sup>147</sup> Robert Holzman and Steen Jorgensen, "Social Risk Management: A New Conceptual Framework for Social Protection and Beyond ", ed. Social Protection Unit, *Social Protection Discussion Paper Series* (2000), 2.

<sup>148</sup> Robert Holzmann and Steen Jorgensen, "Social Protection as Social Risk Management: Conceptual Underpinnings for the Social Protection Sector Strategy Paper " in *Social Protection Discussion Paper Series* (Washington, DC: The World Bank, 1999).

Another body of literature on external influences has highlighted role of ideas and trans-national policy networks in social policy reforms. For instance, Miles Kahler emphasizes the role of external actors in policy learning through technocratic alignment in developing countries. According to him, “The IFIs and other external agencies have a strong interest in shaping the process of learning by national governments in directions that will lead to greater alignments with external policy preferences.”<sup>149</sup> In this context, “transnational epistemic communities, who share a common set of ‘cause and effect beliefs’ and appropriate control over policy in a particular issue area,”<sup>150</sup> are particularly important. Along similar lines, Judith Teichman argues that “policy dialogue” between multilateral and domestic technocrats has played a major role in the market reform process in Latin America. “Decades of interaction stemming from the debt crisis and structural adjustment and common educational training (largely in economics)” has influenced officials in international organizations to “bolster the preferences of certain policy actors over others.”<sup>151</sup>

Although the presence of technocratic forces is evident in Egypt<sup>152</sup>, the argument regarding the role of transnational networks in instigating the reform process is problematic. This is the case, since that the adoption of neoliberal reforms in 1991 was under the leadership of the country’s longest serving Prime Minister Atef Sedqqi, an

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<sup>149</sup> Miles Kahler, "External Influence, Conditionality and the Politics If Adjustment," in *The Politics of Economic Adjustment: International Constraints, Distributive Conflicts, and the State*, ed. Stephan Haggard and Robert R. Kaufman (Princeton: Princeton University Press, 1992), 125.

<sup>150</sup> Ibid., 126.

<sup>151</sup> Judith Teichman, " Multilateral Lending Institutions and Transnational Policy Networks in Mexico and Chile," *Global Governance* 13, no. 4 (2007), 569.

<sup>152</sup> For a discussion see, Sadowski, *Political Vegetables? : Businessman and Bureaucrat in the Development of Egyptian Agriculture*.

economist who held the position over the period 1986-1996. In other words, as Waterbury observed in 1993, the ushering in of reforms did not coincide with the presence of a technocratic “change team.”<sup>153</sup> Nonetheless, there is evidence that neo-liberal minded actors within the state, as well as experts affiliated with influential think-tanks capitalized on the externally induced economic reform process to gradually frame the terms of the social policy debate along neoliberal lines. As elaborated in chapter III, the dissertation argues that the move away from the etatist development model and the adoption of a free market development model has, thus, entailed an ideological shift among policymakers informed by the internationally dominant social policy discourse. More specifically, neoliberal ideas influenced two aspects of welfare policy in recent years: declining subsidy expenditure levels and the promotion of productivist welfare under the SFD. The adoption of neoliberal ideas has, however, remained incomplete and in tension with a moral economy of social entitlements.

### **B. Economic Adjustment and Welfare Reforms**

Scholars of the welfare state in affluent democracies highlight the implications of structural shifts in domestic political economies for social protection policies. For some, welfare regime changes are the product of ongoing deindustrialization driven by “technological progress combined with the saturation of markets for agricultural and industrial products.”<sup>154</sup> According to Torben Iversen, as a result of de-industrialization, there has been a rapid decline in industrial employment and a corresponding rise of

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<sup>153</sup> Waterbury, *Exposed to Innumerable Delusions: Public Enterprise and State Power in Egypt, India, Mexico, and Turkey*, 143.

<sup>154</sup> Torben Iversen, "The Dynamics of Welfare Expansion," in *The New Politics of the Welfare State*, ed. Paul Pierson (Oxford: Oxford University Press, 2001), 76.

popular pressures for social compensation and welfare expansion.<sup>155</sup> Similarly, Huber and Stephens (2001) as well as Pierson (2001), highlight the role of underlying “post-industrial shifts” in generating fiscal pressures on the welfare state in the current era of austerity. These shifts included slowing economic growth, maturation of governmental commitments, transformation of household structures, and population aging.

In the developing world, the literature on the politics of economic adjustment has provided a common framework for analyzing welfare state changes. Indeed, since social programs do not exist in a vacuum, “policy changes that alter the broader political economy” are particularly relevant to understanding welfare reforms.<sup>156</sup> Studies in this body of literature focus on the experience of states undergoing welfare restructuring as part of broader neoliberal reforms. The neoliberal welfare reform agenda ambitiously aimed to expand the role of the private sector, in both the financing as well as provision of insurance and services; improve the efficiency of welfare bureaucracies; and to target social spending to vulnerable groups. In other words the reform agenda was not geared towards expanding benefits to new groups, but rather towards “shifting both spending and institutional prerogatives away from existing stakeholders, often well-organized ones.”<sup>157</sup>

For many analysts, social policy reforms did not only resemble other economic reform measures<sup>158</sup> but also constituted an essential component of the transition from statist to free market systems. For instance, Waterbury in *Exposed to Innumerable*

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<sup>155</sup> Ibid., 77.

<sup>156</sup> Pierson, "The Welfare State at Century's End," 6.

<sup>157</sup> Haggard and Kaufman, *Development, Democracy, and Welfare States: Latin America, East Asia, and Eastern Europe*, 185.

<sup>158</sup> Ibid.

*Delusions* contends that “although it is highly unlikely that political leaders will lead a retreat of the state from all the domains in which it has intervened over the last decades, they will have to unburden the state partially of the role of arbiter and ultimate guarantor of the material welfare of the bulk of the organized work force.”<sup>159</sup> While political economists recognized the political challenges of retrenchment in the context of structural adjustment and some even have raised questions about the feasibility of certain reform steps<sup>160</sup> as well as the challenges of organizing new coalitions<sup>161</sup>, they have remained wedded to the notions that reforms serve to depoliticize access to resources and entail state shrinking or withdrawal.<sup>162</sup> The politics of retrenchment is implicitly reduced to instrumental coalition management strategies, by rational political actors seeking to maintain their hold on power, through “varying combinations of persuasion, partial compensation, occasional obfuscation, and tacit or explicit threats”<sup>163</sup> in addition to outright repression. The dismantling of welfare institutions by autonomous technocratic teams, nonetheless, continued to be seen as a key aspect of reformers’ efforts at replacing inefficient politicized logics of distribution with the economic rationality of free markets. Implicit in this literature is the assumption of growing convergence in welfare policies among state adopting neoliberal reforms.

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<sup>159</sup> Waterbury, *Exposed to Innumerable Delusions: Public Enterprise and State Power in Egypt, India, Mexico, and Turkey*, 209.

<sup>160</sup> See discussion in Heydemann, *Networks of Privilege in the Middle East : The Politics of Economic Reform Revisited*, 19.

<sup>161</sup> Joan M. Nelson, *Economic Crisis and Policy Choice: The Politics of Adjustment in the Third World* (Princeton: Princeton University Press, 1990), 260.

<sup>162</sup> For a critical discussion see, Heydemann, *Networks of Privilege in the Middle East : The Politics of Economic Reform Revisited*.

<sup>163</sup> *Ibid.*, 259. The author also acknowledges that “out right repression, stonewalling or ignoring the pressure, or making limited or broader concessions” are among the tactics used by regimes during the transition to free markets.

Although the early literature on the politics of adjustment acknowledged the difficulties entailed in retargeting pre-existing social programs, the establishment of donor-funded distributive initiatives is viewed as an appropriate mechanism for empowering “winners” under the neoliberal development model.<sup>164</sup> When it comes to interpreting the role of donor-funded safety nets, however, important differences emerged among analysts. While some viewed safety nets, such as the SFD, as entities operating on the basis of the “lottery principle”<sup>165</sup> for the purposes of mobilizing voters in elections, others have viewed them as an essential mechanism for channeling resources to the poor and constructing new coalitions.<sup>166</sup> For the latter, marketization provided a window of opportunity for building coalitions in support of new resource allocations to the poor and directing public resources away from the weakened, but traditionally well organized, urban semi-poor and working classes.

While acknowledging that these opportunities are contingent on the nature of political institutions and are risky endeavors for incumbent elites, research scholarship has approached the reshuffling of coalitions as essentially a process of substituting the rent-seeking politically driven distributive logic of ISI with the economically sound priorities of free markets. Getting “rent-seeking” politics out of the way, through delegating power to autonomous technocratic forces, and the regime’s adoption of ‘limited’ compensatory strategies as well as accurate gauging of potential “threats”<sup>167</sup>, paves the way for the

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<sup>164</sup> Ibid.

<sup>165</sup> Waterbury, *Exposed to Innumerable Delusions: Public Enterprise and State Power in Egypt, India, Mexico, and Turkey*, 203.

<sup>166</sup> Carol Graham, *Safety Nets, Politics, and the Poor: Transitions to Market Economies* (Washington, DC: Brookings Institution, 1994).

<sup>167</sup> On regime strategies see John Waterbury, “The Political Management of Economic Adjustment and Reform” in Joan M. Nelson and John Waterbury, *Fragile Coalitions* :

fashioning of a new dominant coalition encompassing the poor and the small business sector.

For instance, this position is articulated by Joan Nelson's contention that: in the face of competing equity concerns from the urban based semi-poor and working classes, who suffer the biggest relative losses, and the very poor, for whom economic reforms have a smaller negative impact, the authorities are subjected to conflicting pressures for institutional reform in the social sector.<sup>168</sup> Continuing to appease some elements of the former groups may be a political necessity on the short term but risks jeopardizing the entire economic reform process. She, thus, reaffirms the importance of "effective economic management", which "usually requires that central economic authorities be shielded from popular pressures"<sup>169</sup> while vaguely advocating channels whereby "losers" can influence some of the allocational choices that bear on them directly as a pacifying strategy.<sup>170</sup>

Egypt's record of neoliberal reforms and its experience with retrenchment raise several questions about dominant thinking on the politics of economic adjustment. Despite the country's lengthy economic liberalization process and the consistent presence of foreign-trained technocrats in successive governments, the presence of a cohesive "change team" came as late as 2004 with the Nazif government. Nonetheless, their ascendance to power has been intimately related to the rise of Gamal Mubarak as the heir

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*The Politics of Economic Adjustment*, U.S.-Third World Policy Perspectives (New Brunswick: Transaction Books, 1989).

<sup>168</sup> Joan Nelson, "Poverty, Equity and the Politics of Adjustment," in *International Influence on Economic Policy: Debt, Stabilization and Structural Reform*, ed. Stephan Haggard and Robert R. Kaufman (Princeton: Princeton University Press, 1992).

<sup>169</sup> *Ibid.*, 259.

<sup>170</sup> *Ibid.*, 261.

apparent within the ruling NDP. In other words, the rise of reform-minded technocrats has been part of larger political transformations in the ruling regime, a tendency that hardly qualifies them as autonomous actors insulated from the demands of the rent-seeking distributional coalition.

Contrary to neoliberal tenets as well, the process of economic reforms has not led to state shrinking. Indeed, public spending levels have not declined. While average spending as a percentage of GDP averaged 32 percent in the first half of the nineties, it averaged 34 percent during the period 2000-2006.<sup>171</sup> Similarly, although the state has officially ceased to provide permanent employment, government hiring has continued to expand at 4.8 percent per year in the 1990s, twice the rate of overall employment growth.<sup>172</sup>

Although some studies in this literature have insightfully captured the likely influence of patronage dynamics in the operations of targeted and discretionary compensation schemes, developments at the welfare regime level fundamentally diverged from its overall predictions. While the SFD programs did not target the poor, its introduction arguably represented more than limited compensation efforts directed at “losers” in order to ease the transition from ISI to neoliberalism. As elaborated in chapter III, the entire welfare regime has witnessed systematic hidden retrenchment geared towards allocating resources to limited income groups. In other words, neoliberalism has been associated with increasing politicization of access to the welfare regime as a whole.

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<sup>171</sup> Calculated by the author from Samer Soliman, *Strong Regime and Weak State* (Cairo: Merit, 2006), Ministry of Finance, *The State Public Budget 2005-2006* (Cairo: Ministry of Finance, 2005).

<sup>172</sup> Ragui Assaad, "Institutions, Household Decisions, and Economic Growth in Egypt," in *Explaining Growth in the Middle East* ed. Jeffrey B. Nugent and M. Hashem Pesaran (Boston: Elsevier, 2007), 395.



The change in development strategies also did not usher in the rise of a narrow export-oriented coalition of interests. Rather, a grand coalition of interests encompassing some traditional losers, such as elements of the middle classes, as well as export-oriented business interests, commercial agro-businessmen and migrant workers has emerged. While major groups, such as peasants, were excluded under neoliberalism<sup>173</sup> I contend that the outcome for so called “limited income groups” is less clear-cut, because the state sought to maintain support among this constituency. As elaborated in chapter IV, aside from social protection policies, wages amounted to increasing amounts of the state’s budget.<sup>174</sup> Although real wages fell overall, they remained relatively higher in the public sector. Thus, between 1987 and 1996, real wages per week in the public sector fell from L.E. 34.5 to L.E. 27.5 versus a sharp decline from L.E. 39.1 to L.E. 24.3 in the private sector.<sup>175</sup> Most recently, the fact that Mubarak’s 2005 presidential campaign pledged a 100 percent increase in wage levels over a period of six years—is another indication of the state’s commitment to maintaining support among limited income groups.<sup>176</sup>

In sum, the economic reform process in Egypt did not entail state shrinking or the replacement of political rationales with the economic logic of free markets. Further, the recasting of coalitions has been a flexible process in which elements of the middle classes have not been excluded. Political priorities, beyond the need to pacify losers in

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<sup>173</sup> See Ray Bush, *Economic Crisis and the Politics of Reform in Egypt* (Boulder, Colo.: Westview Press, 1999).

<sup>174</sup> Calculated by the author from Ministry of Finance, *The State Public Budget 2005-2006* (Cairo: Ministry of Finance, 2005).

<sup>175</sup> N and H El-Laithy El-Ehwany, "Poverty, Employment and Policy Making in Egypt " (Cairo: ILO, 2001), 44.

<sup>176</sup> Youssef El Omy, "Head of the Wages and Living Standards Committee in the National Council for Wages to 'Al Masry Al Youm': The Wages Increase by 120% in Three Years and the Minimum Wage from 300 to 400 Pounds" *Al Masry Al Youm*, April 5, 2008.

the immediate aftermath of reforms, have continued to dictate resource allocation decisions within the welfare regime.

### **C. The Politics of Welfare Reform**

Moving beyond the earlier emphasis on structural determinants at the international and domestic political economy levels, the study of the welfare state has increasingly focused on the role of institutions in refracting external pressures<sup>177</sup>, creating path dependency,<sup>178</sup> and mediating the politics of distribution.<sup>179</sup> Conceived as the product of political struggles over the distribution of resources, welfare reforms have been interpreted within the context of competition among collectively organized actors, the prevailing political institutions as well as policy legacies. Highlighting the resilience of welfare states, this literature argues that in seeking to roll back the state's welfare functions, politicians face the formidable task of imposing losses on relatively few-- but well organized--groups while providing gains to widely dispersed constituencies. Reforms essentially involve the question of "whether an effective centrist 'restructuring' coalition can emerge between the alternatives of preserving the status quo or radical neoliberal reforms"<sup>180</sup> and entail the pursuit of blame-avoidance strategies, such as compensation, obfuscation and division. Indeed, according to the authors of *The New Politics of Welfare*, policy reform is fundamentally shaped by dynamics in two major arenas; the first is interest intermediation and the second is the electoral arena. While the

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<sup>177</sup> Duane Swank, *Global Capital, Political Institutions, and Policy Change in Developed Welfare States*, Cambridge Studies in Comparative Politics (Cambridge: Cambridge University Press, 2002).

<sup>178</sup> Esping-Andersen, *Social Foundations of Postindustrial Economies*.

<sup>179</sup> Huber and Stephens, *Development and Crisis of the Welfare State: Parties and Policies in Global Markets*.

<sup>180</sup> Pierson, "The Welfare State at Century's End," 9.

explanatory significance of parties and left power to the politics of reform has been contested by Pierson's thesis that welfare states have created their own dynamic of popular organized support and institutional inertia, others have highlighted their continued relevance to the politics of retrenchment.<sup>181</sup>

Along parallel lines, persistent differences in social policies adopted by states in the developing world have led to the emergence of revisionist analyses, which depart from the earlier static conceptualization of "markets as prisons"<sup>182</sup>, or the tendency to treat markets as inherently limiting the margin for states to exercise agency in support of welfare regimes. Drawing on the "new" politics of welfare literature in industrialized states and emphasizing the fact that the advent of neoliberalism in the South often coincided with a wave of democratization, this generation of writings sought to bring politics to the foreground of analyses of welfare regime changes. Indeed, this body of literature focused on four sets of explanatory variables: the underlying switch in development strategies; the degree of executive power centralization within the state; regime type; and policy legacies. While the studies differ in their analytical emphases, a common thread in this literature is its adoption of liberal pluralist understandings of politics and state power, which are of limited relevance to the authoritarian context of Egypt and the Middle East.

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<sup>181</sup> G Garrett, "Global Markets and National Politics: Collision Course or Virtuous Circle?," *International Organization* 52, no. 4 (1998); Walter Korpi and Joakim Palme, "New Politics and Class Politics in the Context of Austerity and Globalization: Welfare State Regress in 18 Countries, 1975-95," *American Political Science Review* 97, no. 3 (2003); and Sandbrook, *Social Democracy in the Global Periphery : Origins, Challenges, Prospects*.

<sup>182</sup> This notion refers to the view that the adoption of neoliberal reforms and integration into world markets undermines both the policy-making and agenda-setting capacities of states. For a critical discussion see Linda Weiss, *States in the Global Economy: Bringing Domestic Institutions Back In* (Cambridge: Cambridge UP, 2003).

Looking at the diverse social policy choices in new democracies across Latin America, East Asia and Eastern Europe, Haggard and Kaufman highlight the role of policy legacies in shaping the politics of welfare reform. More specifically, their focus is on how electoral and interest group politics were affected by earlier social policy choices, and how these political economy factors in turn influenced the reform of social insurance and services.<sup>183</sup> In their framework, the explanatory role of policy legacies is complemented by cross-regional variations in economic conditions, such as the growth record, degree of economic restructuring as well as the underlying fiscal capacity of the state.<sup>184</sup> Based on regression results and comparative historical analysis of welfare reforms, the authors also contend that regime types are consequential, on a secondary level, in explaining variations in social policy reforms. According to them, the effects of institutional rules of the game are “conditional on the distribution of underlying preferences over the policy in question and the strength of contending social groups in the political process.”<sup>185</sup> Nonetheless, their findings suggest that it is useful to distinguish among democratic and authoritarian regimes in a nuanced way since semi-authoritarian states “exhibit greater attention to social policy than do ‘hard’ authoritarian regimes, at least in the non-socialist cases.”<sup>186</sup>

On this basis, they argue that where social policy coverage was initially narrow but growth was high, as in East Asia, “the political logic of expanding social entitlements

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<sup>183</sup> Haggard and Kaufman, *Development, Democracy, and Welfare States : Latin America, East Asia, and Eastern Europe*.

<sup>184</sup> Ibid., 185-196.

<sup>185</sup> Ibid., 15.

<sup>186</sup> Ibid.

proved compelling.”<sup>187</sup> On the other end of the spectrum, in Eastern Europe, where coverage was wide and economic circumstances adverse, “electoral and interest group forces combined to limit the scope of liberalizing reform or retrenchment.”<sup>188</sup> Lastly, the legacy of unequal coverage and unfavorable economic context in Latin America resulted in a mixed record of social policy reforms. While access to social insurance and services remained unequal, states across the region introduced targeted welfare policies. This outcome reflects the fact that “governments faced competing political pressures for both the expansion and reform of welfare systems, but they did so in the context of strong stakeholders with an interest in preserving the status quo.”<sup>189</sup>

In contrast to Haggard and Kaufman, studies by Michelle Dion and Seekings place more emphasis on the influence of political regimes on welfare reform efforts. Analyzing Mexico’s social protection policies since the eighties, Dion argues that while employment-based social insurance policies have been retrenched, both formally as well as informally, by successive governments, targeted social assistance schemes have gradually expanded to cover previously excluded groups.<sup>190</sup> This pattern of welfare regime restructuring is attributed to not only underlying change in the country’s development strategy, but also increasing political competition in the context of democratization. While structural transformations of the labor market have raised demands for non-contributory social assistance, political liberalization required that “the

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<sup>187</sup> Ibid., 348.

<sup>188</sup> Ibid.

<sup>189</sup> Ibid.

<sup>190</sup> Michelle Dion, "Retrenchment, Expansion and the Transformation of Mexican Social Protection Policies," *Social Policy and Administration* 42, no. 4 (2008).

ruling party build support among the growing numbers of unemployed and informal sector voters.”<sup>191</sup>

Contrary to common concerns regarding convergence around a residual neoliberal model of welfare, Seekings comparative study “The Politics of Welfare Regimes in the South” points to the emergence of more egalitarian and universalist trends in recent years. According to him, the combination of demographic change, massive de-agrarianization and democratization increased the pressure for welfare reforms at the end of the twentieth century. As a result, “over the past twenty years...more and more states have been moving in the direction of redistributive regimes even if they are not yet close” to fully approximating it.<sup>192</sup> The lack of access to “formal jobs” and the associated contributory schemes, growing population sizes and well as democratization, all have affected social protection policy choices. Despite highlighting structural dynamics driving the tendency towards expanding social assistance, Seekings emphasizes the role of policy legacies in influencing welfare regime changes. According to him, “reform is most likely in those settings where there are fewer obstacles, and that means settings where there is a weakly entrenched system of social insurance with all of the vested interests that arise from it.”<sup>193</sup>

Indeed, as further elaborated in section V, with significant adjustments, the variables identified by Dion, Seekings as well as Haggard and Kaufman are useful for understanding the political economy of welfare retrenchment in authoritarian contexts, such as Egypt’s. While policy legacies do matter in Egypt and explain the continued preservation of welfare institutions, their impacts are not articulated through electoral

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<sup>191</sup> Ibid., 449.

<sup>192</sup> Seekings, “The Politics of Welfare Regimes in The ‘South’,” 14.

<sup>193</sup> Ibid., 37.

politics or interest groups competition. Rather, I contend that the effect of policy legacies could be captured by analyzing the state's relationship with its traditional social basis of power, or the lower middle and middle classes. Further, the argument by Dion and Seekings that democratization has molded welfare regime change processes, given the need of incumbent governments to solidify support among new social groups, highlights the influence of the power maintenance logic, which is also applicable in authoritarian settings.

Another strand of the literature on the politics of welfare reform has emphasized the implications of political *institutions*, particularly the degree of power centralization, for welfare reform outcomes. Indeed, in her assessment of social policy developments in Latin America, Evelyne Huber broadly argues that reforms reflected the prevailing distribution of power between supporters and opponents as shaped by the extent of the economic crisis, the political orientation of the government, the strength of unions and social movements, as well as the power of opposition parties. Her comparative analysis, however, reveals that "how the structure of political institutions mediated the effects of the power balance between supporters and opponents of neoliberal reforms" is particularly important for explaining variations in outcomes.<sup>194</sup> Along the lines of the literature on industrialized welfare states and the early analyses of the politics of adjustment, she argues that power concentration in the executive is an essential factor in the reform process. "In Latin America, the most radical economic and social policy reforms outside Chile were imposed by over powering executives (with at times

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<sup>194</sup> Evelyne Huber, "Globalization and Social Policy Developments in Latin America," in *Globalization and the Future of the Welfare State*, ed. Miguel Glatzer and Dietrich Rueschemeyer (Pittsburgh: University of Pittsburgh Press, 2005).

questionable democratic methods)...Where politics were more open and competitive or constitutional power more dispersed, such as in Uruguay, Costa Rica and Brazil, economic reforms were aimed at strengthening universalistic basic transfers and services.”<sup>195</sup> Aside from the fiscal capacity of states, she also points to the structure of the party system as an important influence on the likelihood that executives garner support for reforms.<sup>196</sup> The implication of this position is that, authoritarian regimes with concentrated executive powers are more likely to enact welfare reforms and overhaul old social policy frameworks than are democratic regimes.

Similarly, according to Raul Madrid, the determinants of pension privatization in Latin America are political variables as opposed to economic dynamics.<sup>197</sup> Based on quantitative analysis he argues that: macroeconomic concerns--specifically the shortage of capital and the influence of the World Bank--increase the likelihood of reforms, but are not causally responsible for their occurrence. Instead, the pension reform record across the region reflects the influence of two political dynamics. These are the strength of labor movements, which can block reforms through strike actions and can “mount major political campaigns against policy initiatives”<sup>198</sup> as well as the president’s degree of control over the legislature.

While the role of political institutions, in structuring the possibility and scope for welfare reforms, is significant for grasping differences in the reform records of democratic states in the South, the argument is less relevant to the case of Egypt. The

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<sup>195</sup> Ibid., 96.

<sup>196</sup> Ibid.

<sup>197</sup> Raul Madrid, "The Politics and Economics of Pension Privatization in Latin America," *Latin American Research Review* 37, no. 2 (2002).

<sup>198</sup> Ibid., 170.



country's centralized political system, its corporatist controls over labor unions and adoption of hidden retrenchment, indeed, are at odds with the basic thrust of Huber and Madrid's arguments. Rather, as elaborated in chapter IV, I argue that the centralization of executive power in Egypt has in fact hindered the neoliberal welfare reform agenda and accounts for hidden processes of retrenchment.

Lastly, Marcus Kurtz's argument in "Understanding the Third World Welfare State after Neoliberalism," sheds light on the political dynamics behind variations in social policies adopted by developing neoliberal states.<sup>199</sup> Through a comparison of three polities--Chile 1935-1972, Mexico 1988-2000 and Chile post-military regime 1989-2000- Kurtz makes the case that within the wide arena defined by the prevailing development model and ideology, anti-poverty policies could be conceptualized as political outcomes. He identifies three important variables at work: the competitiveness of the political system, the degree of organization among the poor, and the patterns of political alliance. Together, they seem to shape social policy choices. According to Kurtz, although both Chile and Mexico in the nineties adopted the neoliberal development model, there were dramatic differences between the two cases in the area of social policy. While Mexico adopted means-based targeting of consumption subsidies and efforts to support the integration of the poor into the market, Chile since democratization has moved towards a quasi- universal support of consumption and invested relatively little on the productivist market integration side.<sup>200</sup>

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<sup>199</sup> Marcus J Kurtz, "Understanding the Third World Welfare State after Neoliberalism: The Politics of Social Provision in Chile and Mexico," *Comparative Politics* 34, no. 3 (April 2002).

<sup>200</sup> *Ibid.*, 293.

According to the author, although the PRI in Mexico faced higher levels of political competition, which may explain the country's adoption of a large-scale social initiative (PRONASOL), the lack of organization among the poor and their lack of inclusion into the ruling coalition accounts for the targeted nature of the state's policies and their lack of sustainability. In the Chilean case, the ruling coalition of center and left-wing forces faced moderately organized groups representing the poor, who were tightly linked to the parties. Thus, the immediate consumption needs of the poor found their way to the political agenda and quasi-universal family allowance subsidies that only exclude the very wealthy were introduced. On this basis, the author generalizes that where the poor are not well organized and level of competition is lower, anti-poverty efforts will tend towards smaller, dissent-mitigating forms and efforts will emphasize production while avoiding obvious re-distributional outcomes. Despite the fact that, unlike PRONASOL, Egypt's production-oriented SFD has targeted the lower-middle and middle classes, nonetheless, Kurtz's emphasis on political organization among the poor as well as level of political competition are arguably useful for analyzing the country's retrenchment record. As elaborated in section IV, hidden patterns of retrenchment, including the conversion of income generation programs, could be traced back to lack of political organization among the poor, their exclusion from political alliances, and the overall limited degree of competition in Egypt's political system.

#### ***V. The Argument***

In this study, I adapt the literature on the politics of welfare regime change to Egypt's authoritarian context. I emphasize Egypt's welfare policy legacies and the

regime's power maintenance logic as crucial to understanding the country's retrenchment record. Further, I argue that the internationally dominant neoliberal discourse is, to a lesser extent, behind some aspects of the welfare reform process. At the micro-level, I contend that several political dynamics mold retrenchment outcomes. These are: intra-state struggles; the regime's security interests; its tendency to fiscally penalize areas with Muslim Brotherhood support; and the influence of competing networks of patronage under the umbrella of the NDP.

More specifically, I argue that although retrenchment is rooted in Egypt's economic crisis, which became pressing with the decline in proceeds from oil exports and the accumulation of debt in the late 1980s, economic factors have not shaped the course of welfare policy reforms. Since Egypt's distributional politics does not play out at the electoral arena or at the level of interest groups, I explore the prevailing moral economy of social entitlements and the state's relationship with the lower middle and middle classes, the primary beneficiaries of its old welfare policies, within the context of the state's ongoing struggle with the Muslim Brotherhood. Further, I argue that the reduction of food subsidy benefits and the state's new emphasis on productivist welfare, have been informed by the internationally dominant neoliberal discourse.

The Egyptian state's welfare restructuring record reveals hidden retrenchment patterns—*dilution*, or reduction of the universal food subsidy benefits, *conversion*, or redirection of old income generation programs to the middle classes as well as *layering*, or the addition of small business promotion as a parallel institutional track of social provision under the SFD. I argue that these patterns reflect the influence of the moral economy shaping citizens' expectations regarding the state's role, the centralization of

power within the ruling regime, the number of program beneficiaries as well as the state's resistance to external initiatives to fundamentally reform the welfare regime.

Lastly, at the micro-level, I argue that struggles between the SFD, on the one hand, and its implementing partners, on the other hand, have skewed retrenchment patterns in favor of limited income groups. Whereas regime security interests have shaped the development of the SFD's targeting mechanism, multivariate analysis of spatial allocations by the SFD reveals that the dual dynamics of political exclusion *and* clientelistic mobilization have influenced distribution patterns on the ground.

## ***VI. Research Design and Methodology***

The study combines the qualitative method within comparative politics--the disciplined interpretive single case study--with quantitative multivariate regression analysis of the SFD's Small and Micro-Enterprises (SME) credit allocations across governorates in the period 2004-2006. The qualitative approach involves the explicit utilization of alternative theories and the systematic interrogation of the evidence to check each in order to avoid the selective reconstruction of events in support of a favored theoretical interpretation.<sup>201</sup> I have relied on semi-structured and open-ended interviews in the field with various stakeholders, policy documents, as well as other primary sources to conduct process tracing and investigate the political economy of retrenchment in Egypt at the meso-institutional level and the micro-level of program allocation across space. Fieldwork over the course of two years between 2005 and 2007 relied on 145 semi-

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<sup>201</sup> John S Odell, "Case Study Methods in International Political Economy," *International Studies Perspectives* 2 (2001): 161-176.

structured and open-ended interviews with key stakeholders.<sup>202</sup> These included 27 current and previous officials at the SFD and the following Ministries: Social Solidarity, Foreign Trade and Industry, Investment and Finance, in addition to representatives of business groups and labour unions. Further, interviews were held with 44 SME entrepreneurs, 36 leaders and staff of 15 NGOs, five members of the National Democratic Party's economic and policies committees, three members of opposition parties, as well as 15 officials at the industrial modernization program, the ILO, the World Bank and major donors to the SFD. I relied on purposeful sampling of key officials at the SFD, government agencies, the donor community as well as politicians affiliated with the NDP and the opposition. In addition, I adopted the snowball method in order to facilitate access to SME entrepreneurs and NGOs working with the fund. Eleven research sites<sup>203</sup> in six governorates were selected to allow for variations in the rates of poverty, unemployment and urbanization using Egypt's 2005 Human Development Report indices.

While the results of single case studies may not be readily generalizable to other cases, if appropriately utilized, this method can allow both for the in-depth assessment of explanations for social phenomena as well as the generation of new hypotheses.<sup>204</sup> Further, along the lines of Edwin Amenta's recommendation in his analysis of the social

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<sup>202</sup> My interviewees also included academics who have conducted research on poverty, the informal sector and small businesses in Egypt.

<sup>203</sup> The sites were, Alexandria, Cairo, Helwan, city of Port Said, Om Khalaf and Bahr El Baqar villages in Port Said governorate, city of Antara and Abu Khalifa village in Ismailiya, city of Mansura, Tala in Menoufeya as well as the village of El Asloohy in Sharqeya.

<sup>204</sup> Stephen Van Evera, *Guide to Methods for Students of Political Science* (Ithaca: Cornell University Press, 1997); Odell, "Case Study Methods in International Political Economy."

policy literature, this single case study adopts a comparative logic of inquiry by situating this single case study of hidden retrenchment in a comparative regional context as well as pursuing macro-level comparisons in causal argumentation.<sup>205</sup> The single case study approach, is particularly useful for the purposes of my research since it, effectively complements social expenditures data by examining the causal dynamics driving institutional changes that are not captured by spending statistics. By incorporating richer evidence and reasoning about process and context, the single case study approach allows me to develop a fuller understanding of the process of retrenchment in Egypt and to generate tentative hypotheses for understanding regional variations in retrenchment patterns. Further, through statistical regression analysis of the SFD's official geographic targeting map, its allocations of SME credit across governorates, independent measures of poverty across Egypt as well as voting patterns in the 2005 parliamentary and presidential elections, the research sheds light on the political influences at work at the micro-level.

## ***VII. Outline of Chapters***

The next chapters provide a historical overview of Egypt's welfare regime development and explore the dynamics driving retrenchment at the meso-institutional and micro-level. Chapter two traces the origins of Egypt's welfare regime and analyzes two critical junctures in its development—namely, Nasser's establishment of an insurance-based egalitarian regime in the 1950s, and hidden retrenchment since 1987. The chapter also outlines major components of Egypt's welfare regime. Next, the dissertation

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<sup>205</sup> Edwin Amenta, "What We Know About the Development of Social Policy," in *Comparative Historical Analysis in the Social Sciences*, ed. James Mahoney and Dietrich Rueschemeyer (Cambridge: Cambridge University Press, 2003), 93.

engages with two sets of explanations for the puzzle at hand, which are addressed in consecutive chapters. Chapter three discusses *external* factors including Egypt's integration into the global economy, the role of donors and the influence of neoliberal ideology. Chapter four investigates *domestic* influences on Egypt's political economy of hidden retrenchment. As for chapter five, it examines three aspects of the *micro-politics of retrenchment*; intra-state struggles that helped define eligibility criteria for SFD loans, regime security concerns, which influenced the development of the SFD's targeting mechanism, and political influences on the fund's spatial distribution patterns. Lastly, the conclusion offers tentative inferences about the political economy of retrenchment and state-society relations in Egypt and the Middle East more broadly.

## **Chapter II**

### **The Expansion and Retrenchment of Egypt's Welfare Regime**

The establishment of Egypt's insurance-based egalitarian regime, whose legacies molded the process of retrenchment in the 1990s, was shaped by the interplay of political, economic and ideological forces. During the first critical juncture in the welfare regime's development, ushered in by the Free Officers 1952 coup, the post-colonial state systematically attempted to create a power base of support among the middle classes, a dynamic that profoundly influenced the emerging welfare regime. The pursuit of an etatist development model, based on Import Substitution Industrialization (ISI), nationalization and guaranteed public employment policies, facilitated the rapid expansion of employment-based benefits. Since the adoption of Arab socialism tied the state's legitimacy to the enactment of "social rights", ideological dynamics created a momentum to extend coverage to new groups and eventually expand egalitarian universal benefits, in the form of subsidies under Sadat. The economic crisis of the late 1980s; the enactment of regressive fiscal reforms; and the instituting of Small and Micro-Enterprise (SME) development as a new social protection mechanism marked the beginning of a second critical juncture in the evolution of the welfare regime. Although institutional shifts in the welfare regime did not entail fundamental restructuring or discontinuation of programs, the system has grown less egalitarian and less accessible by the poor. The SFD is an important window for analyzing these hidden patterns of retrenchment.



The purposes of this chapter are to highlight the origins of Egypt's welfare regime, analyze two significant junctures in its development as well as provide an overview of its main components. I provide a historical overview of welfare regime development in Egypt over three periods. In section I, the origins of the contemporary welfare regime, during the years between 1936 and 1951, are analyzed. Section II addresses the critical juncture in the regime's development under Nasser's ISI and the path-dependent patterns of institutional reproduction, characterized by differential social insurance benefits, universal subsidies and the slow development of citizenship-based social assistance schemes. The discussion covers four major components of the prevailing welfare regime: pensions, cash transfer schemes, income generation programs, as well as the food subsidy system. Lastly, the recent juncture of hidden retrenchment, which was triggered by the long-standing economic crisis of the state and in which the SFD has played a key role since the early 1990s, is presented.

### ***I. The Origins of Egypt's Welfare Regime 1936-1951***

The roots of modern welfare policies reach back into the 19<sup>th</sup> Century when Mohamed Ali (1805-1849), the founder of the dynasty that ruled Egypt until 1952, initiated an industrialization program. His regime introduced a pension plan for civil servants and military personnel in 1854 as well as extended the state's regulation of religiously inspired private benevolence and religious endowments or *awqaf*.<sup>206</sup> The

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<sup>206</sup> See Isam Esawi, *Manuscripts of Pensions and Social Insurance in the Nineteenth and Twentieth Centuries* (Cairo: Dar El Thaqafa El Almeya, 2002); Mine Ener, *Managing Egypt's Poor and the Politics of Benevolence, 1800-1952* (Princeton, N.J.: Princeton University Press, 2003); Daniella Pioppi, "Privatization of Social Services as a Regime Strategy: The Revival of Islamic Endowments (Awqaf) in Egypt," in *Debating Arab Authoritarianism : Dynamics and Durability in Nondemocratic Regimes*, ed. Oliver Schlumberger (Stanford, Calif.: Stanford University Press, 2007); and Ayse Bugra,

beginnings of the contemporary welfare regime, however, date back to the period between 1936-1951, which witnessed the enactment of the country's first social security legislation and the expansion of the state's direct involvement in the social arena. Although welfare schemes were successively adopted in 1936, 1942, and 1950 the orientation of the welfare regime remained contested between the proponents of limited employment-based social insurance schemes and those in favor of broader non-contributory means-tested social assistance. Further, the "institutional infrastructure" for extending state employment, services and subsidies, is an important Keynesian legacy of the colonial administration during and after World War II. Indeed, four sets of factors influenced welfare policies during this period. These are: the power struggle among the broad-based nationalist *Wafd*,<sup>207</sup> competing social movements and political parties, as well as the Palace; resistance by foreign capital and a newly emergent bourgeois class to expanding workers' rights; the colonial state's concern with local stability; and international ideas on welfare policies.

Along the lines of countries in Latin America, workers compensation schemes for a minority class of workers planted the seeds of the Egyptian state's intervention in welfare provision during the mid-thirties.<sup>208</sup> Workers compensation statutes for accidents

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"Poverty and Citizenship: An Overview of the Social Policy Environment in Republican Turkey," *International Journal of Middle East Studies* 39, no. 1 (2007).

<sup>207</sup> The Wafd is a political party established after World War I by leaders of the Egyptian nationalist movement following the popular resistance of 1919.

<sup>208</sup> The period was also marked by the introduction of a series of tax reforms, in 1939 new taxes on industrial and commercial wages, interests, dividends and on inheritance were enacted, followed by corporate income tax (1941) and a progressive tax on personal income (1947-8). According to Bent Hansen, *Egypt and Turkey* (New York: Oxford University Press, 1991).

were first enacted in 1936 by a *Wafd* government.<sup>209</sup> The nationalist concern with equity stemmed from the gross disparities of wealth, as well as the aspirations of the rising middle and lower-middle classes for the “wealth and power of the solidly entrenched European political and economic elites.”<sup>210</sup> In fact, the dominance of foreign capital was such that it represented 70 percent of the total capital invested in Egypt.<sup>211</sup> Further, the demands of labor activists typically went beyond workers’ organization and work-related conditions to express the desire for national independence, and emphasize educational as well as social aspects of workers lives.<sup>212</sup> Although the rise of the trade unions movement predates the *Wafd*, the nationalist agenda became strongly linked to workers’ demands following the 1919 revolution. Accordingly, “It was during those years of 1926-1928, 1930, and 1936-1937, when parliament was dominated by Wafdists, that the workers’ demands received the most active support, and that most labour laws were proposed.”<sup>213</sup> Similarly, the main pieces of legislation on social security in the pre-1952 period were passed under *Wafdist* governments.

Nonetheless, the ability of the nationalist movement to enact social reforms was circumscribed. Although progressive proposals by a government committee made “the

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<sup>209</sup> The law covered both industrial workers as well as workers employed in agriculture who workers on power –operated machines, See Marius Deeb, *Party Politics in Egypt: The Wafd and Its Rivals, 1919-1939*, St. Antony's Middle East Monographs (London: Ithaca Press for the Middle East Centre Oxford, 1979). The 1936 legislation was complemented in 1942 by compulsory work insurance law and a law for the compensation of work hazards.

<sup>210</sup> Robert Tignor, "Equity in Egypt's Recent Past: 1945-1952," in *The Political Economy of Income Distribution in Egypt*, ed. Judah Abd al-Khaliq and Robert L. Tignor (New York: Holmes and Meier, 1982), 21.

<sup>211</sup> Joel Benin, "Formation of the Egyptian Working Class," *MERIP Reports* 94 (1981), 15.

<sup>212</sup> See Deeb, *Party Politics in Egypt: The Wafd and Its Rivals, 1919-1939*.

<sup>213</sup> Mauris Deeb, "Labour and Politics in Egypt, 1919-1939," *International Journal of Middle East Studies* 10, no. 2 (1979), 202.

employer responsible for providing housing, food, schooling and health care, limited the working day to nine hours, and prohibited the employment of children under twelve,”<sup>214</sup> the initiatives were successfully resisted by the Egyptian Federation of Industries and the Palace. As a result, an ILO mission recommended that Egypt’s new labor laws, as “enacted in the 1930s, make no provision for old age, sickness, and unemployment insurance.”<sup>215</sup> Further, the employment-based insurance scheme narrowly covered a minority class of urban-based industrial workers, which numbered 273,000 in 1937<sup>216</sup> for work-related injuries only, while excluding the majority of the population in rural areas where the state prioritized the setting up of social services centers.

In fact, according to one observer, “the technical cooperation between Egypt and the International Labour Organization, which began in 1931 (Egypt became a member in 1936), contributed to the speeded progress of this movement on the part of the industrial laborer, and it left behind the problem of public assistance for the benefit of the poor or the majority of the population, who were scattered in the rural areas.”<sup>217</sup> Indeed, aside from insurance for industrial workers, policy discourse on income security and poverty at

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<sup>214</sup>Judah Abd al-Khaliq and Robert L. Tignor, *The Political Economy of Income Distribution in Egypt*, *The Political Economy of Income Distribution in Developing Countries* (New York: Holmes and Meier, 1982), 26.

<sup>215</sup> Rather, than modeling its labor laws on European legislation, Egypt was encouraged to follow the precedents in India and Japan at the time, a recommendation that resulted in a legislation that “was well below the international standard”, according to Tignor. Ibid.

<sup>216</sup> Deeb, *Party Politics in Egypt: The Wafd and Its Rivals, 1919-1939*.

<sup>217</sup> M. Fouad El Bidewy, *The Development of Social Security in Egypt* (Cairo: Ministry of Social Affairs, 1953), 24.

the time revolved around the concept of “*takaful*” or mutual aid between individuals as well as categories of society.<sup>218</sup>

In the aftermath of World War II, the politics surrounding social reforms were molded by two important developments. The first was the political salience of equity concerns, as the cost of living nearly tripled between 1939 and 1945 injuring the peasants, as well as the urban poor.<sup>219</sup> The second was the emergence of new political forces that successfully competed with the *Wafd* for organized labor’s support and upheld competing agendas for social reforms. Indeed, following the emergence of a local bourgeoisie class in the inter-war period, the *Wafd* came to embody a loose coalition of big landowners, aspiring industrialists, and urban professionals, whose interests were not always aligned with the political and economic demands of the working class.<sup>220</sup> Further, political contestation among the *Wafd*, the smaller established parties, the newly emergent movements of the Muslim Brothers and fascistic Young Egypt, as well as a renewed communist movement all shaped the debate over the emerging social role of the state.<sup>221</sup>

In fact, social insurance schemes that remained limited both in terms of risk as well as population coverage were at the center of political struggles in the late 1940s. When the *Wafd* came to power for the first time after World War II in 1950, the social reform agenda shifted towards the enactment of non-contribution based forms of social

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<sup>218</sup> See discussion in United Nations Social Welfare Seminar for Arab States in the Middle East, *United Nations Social Welfare Seminar for Arab States in the Middle East. 1st-4th, 1949-1954* (New York,: United Nations, 1949).

<sup>219</sup> Tignor, "Equity in Egypt's Recent Past: 1945-1952," 27-32.

<sup>220</sup> Benin, "Formation of the Egyptian Working Class," 23.

<sup>221</sup> *Ibid.*

support.<sup>222</sup> While 44 percent of all rural families in Egypt were landless, the top one percent owned an overwhelming 72 percent of all agricultural land.<sup>223</sup> For leftist reformers within the *Wafd*, the highly skewed distribution of land as well as the fact that 67 percent of the population lived in rural areas<sup>224</sup> highlighted the concentration of poverty in the countryside and inadequacy of urban-based social insurance schemes. Accordingly, the party dismissed a proposal for further expanding the social insurance system to a wider range of risks such as, old age, sickness, and disability among urban industrial and commercial workers as socially inadequate.<sup>225</sup>

Instead, based on consultation with the United Nations, a social assistance scheme was issued in 1950 marking the first time that public authorities assumed responsibility for those unable to support themselves on the grounds of citizenship rights as opposed to employment.<sup>226</sup> The scheme was financed entirely through general government revenues at an estimated cost of L.E. 6 million per annum or 0.5 percent of the national income.<sup>227</sup> It extended means-tested pensions to widows with dependent children, orphans, the aged and disabled persons while providing one-time grants to needy groups not covered by the

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<sup>222</sup> Mohamed Edris, "The Wafd Party and Labour Issues," in *History of the Wafd*, ed. Gamal Badawy and Lamy El-Moteey (Cairo: Dar El Shorouk, 2003).

<sup>223</sup> Figures refer to 1950 see Mahmoud Abdel-Fadil, *Development, Income Distribution, and Social Change in Rural Egypt, 1952-1970 : A Study in the Political Economy of Agrarian Transition* (New York: Cambridge University Press, 1975); Waterbury, *The Egypt of Nasser and Sadat: The Political Economy of Two Regimes*.

<sup>224</sup> Based on 1947 figures. Robert L. Tignor, *State, Private Enterprise, and Economic Change in Egypt, 1918-1952* (Princeton: Princeton University Press, 1984), 249.

<sup>225</sup> *The Egyptian Social Security Scheme*, 1.

<sup>226</sup> League of Arab States United Nations, *Social Assistance in the Arab States: Ways and Means of Its Organization*, Third Social Welfare Seminar for the Arab States (Cairo: Administration of Social and Health Affairs, Secretariat General, League of Arab States, 1956).

<sup>227</sup> Charles Philip Issawi, *Egypt at Mid-Century, an Economic Survey* (London: Oxford University Press, 1954), 180.

scheme, including divorced women with children, widows under 65 years of age and the partially disabled.<sup>228</sup> Writing in 1950, Charles Issawi estimated that the short-lived scheme would benefit “half a million persons, with about a million dependents” in its first year of implementation.<sup>229</sup>

Aside from formal social security policies, the beginnings of the Egyptian state’s substantive roles in employment creation, subsidies and food security could be traced back to Keynesian influences on colonial policies and the national liberation struggle during the 1930s and 1940s. Referring to the colonial experience in the Middle East, Lisa Anderson states: “Exploitation of local labor was not an integral part of the political economy of the protectorates and mandates; investment in human resources was understood as a moral obligation not an economic imperative.”<sup>230</sup> Thus, Britain’s economic policies in Egypt “were heavily influenced by a view of the state as the mechanism for ensuring that economic outcomes would be socially just (and therefore politically justifiable in the West).”<sup>231</sup> Further, nationalist pressures led the colonial power to expand more broadly welfare programs in order to maintain stability. Indeed, the national liberation struggle brought to the forefront questions of social justice and the fact that inequality in Egypt in the post-World War II years was such that “the combined top 40% of population amounts to about 75% of the total GDP, which renders rates of

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<sup>228</sup> *The Egyptian Social Security Scheme*, 2.

<sup>229</sup> Charles Philip Issawi, *Egypt at Mid-Century, an Economic Survey* (London : Oxford University Press, 1954), 180.

<sup>230</sup> Anderson, "Students, Bases, Parties, Movements: Public Welfare and the Struggle between the State and Its Competitors in the Middle East."

<sup>231</sup> Steven Heydemann and Robert Vitalis, "War, keyneianism, and Colonialism: Explaining State-Market Relations in the Postwar Middle East" in *War, Institutions, and Social Change in the Middle East*, ed Steven Heydemann (Berkeley: University of California Press, 2000), 120.

growth in GNP closely connected to the income growth of this 40% and is not much affected by what happens to the majority of the population.”<sup>232</sup>

In light of Keynesian influences on policy-making and nationalist agitation, the state began regulating food supply and expanded public employment in the 1930s and 1940s. During World War II, under the guidance of Middle East Supply Centre- an economic agency set up by the British, “agricultural inputs and outputs were subjected to an increasing degree of control, until governments had taken over purchase and distribution of most key commodities, including fertilizers, wheat and other grains, sugar, tea, coffee and cooking oil.”<sup>233</sup> This step, according to Steven Heydemann and Robert Vitalis, set the foundations for future state intervention in the supply and pricing of food.<sup>234</sup> Indeed, some analysts trace the origins of subsidy system back to the food distributional system, which was introduced in 1941 to counter rampaging inflation.<sup>235</sup> However, the scope and coverage of subsidy policies during this period are unclear.<sup>236</sup> Further, over the same period, the permanent civil service increased to reach 42,000 in 1940 versus 15,000 in 1915 with expenditure on wages already amounting to 36 percent of the government’s expenditure in 1937-1938.<sup>237</sup>

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<sup>232</sup> Waterbury, *The Egypt of Nasser and Sadat: The Political Economy of Two Regimes*. 209.

<sup>233</sup> Heydemann and Vitalis, "War, keyneianism, and Colonialism," 120.

<sup>234</sup> Ibid.

<sup>235</sup> Khalil Darweesh, *Food Subsidies Policies in Egypt*, Public Policies Seminar (Cairo: Cairo University, Public Administration Research and Consultation Center, 2005).

<sup>236</sup> Sources mention that cooking oil, sugar, tea, and kerosene were distributed using stamps. However there are no detailed accounts of the subsidy system. See Amina Kamel Abla Abdel Latiff, *Application of Targeting Options to Egypt: Background Study for the Egyptian Social Welfare Program, Research Supported by the Social Fund for Development* (Cairo: CEFRS, 1993).

<sup>237</sup> Deeb, *Party Politics in Egypt: The Wafd and Its Rivals, 1919-1939*, 127.



In sum, the period 1936-1950 marked the beginnings of Egypt's contemporary welfare policies with the enactment of a limited workers compensation insurance scheme in 1936. The scope of the state's social responsibilities and the orientation of the welfare regime remained contested between the proponents of limited employment-based benefits and those in favor of a larger role for non-contributory social assistance. The tensions reflected the power struggles in the late 1940s among: the broad-based nationalist *Wafd* which embodied diverse interests and ideological currents; the Palace which represented the interests of foreign capital and the colonial state; as well as the newly emergent political forces from the left and the right. Keynesian ideas regarding state regulation and social responsibility as well as the colonial state's attempts to maintain local stability in the face of nationalist pressures, gave rise to the beginnings of food subsidy policies and significant public employment.

## ***II. The Insurance-based Egalitarian Regime 1952-1986***

The welfare regime's first critical juncture in the sense of a brief moment "in which opportunities for major institutional reforms appear," followed by a long stretch of institutional stability<sup>238</sup> was ushered in by the Free Officers coup of 1952. The coup occurred against the backdrop of an equity crisis triggered by a substantial drop in per capita incomes after the mid-twenties as well as accelerated rural urban migration driven by World War II mobilization effort, rural overpopulation and land hunger.<sup>239</sup> Under Gamal Abdel-Nasser, the state—buttressed by a broad-based distributional coalition of interests—assumed a hegemonic role as the producer, employer and provider of goods

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<sup>238</sup> James Mahoney, "Path Dependence in Historical Sociology," *Theory and Society* 29 (2000): 511. See also discussion in Pierson, *Politics in Time : History, Institutions, and Social Analysis*.

<sup>239</sup> Waterbury, *The Egypt of Nasser and Sadat: The Political Economy of Two Regimes*.

and services. In the 1950s and 1960s, a series of social reform measures definitively oriented the emerging welfare regime towards employment-based insurance while an elaborate universal food subsidy system gradually evolved. As part of this process, non-contribution based social assistance transfers were marginalized while income generation schemes were encouraged among the poor, as a mechanism for supplementing household incomes.

The historically egalitarian character of Egypt's insurance-based regime is rooted not only in the pro-poor bias of the universal food subsidy system and features of the social security system, which are addressed in the following sections, but also the structure of the state's financing. Aside from increasing reliance on contributions by public sector firms to the budget, the establishment of the welfare regime in the 1950s and early 1960s was accompanied by an initial shift from indirect to direct taxation.<sup>240</sup> Indeed, fiscal reforms raised maximum income tax rate levels while simultaneously lowering tax brackets.<sup>241</sup> Progressive rate structures on all sources of income, except dividends and interests, officially aimed at promoting equity.<sup>242</sup> The share of these taxes climbed from 22 percent of total tax revenues in the early 1950s to 30 percent in the mid-1960s but their impact on income distribution was overall limited due to exemptions and low effective implementation.

Reforms in the late 1960s raised the share of indirect taxes in the state's budget. The pursuit of ISI entailed the levying of customs on imports both as protection

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<sup>240</sup> Charles Philip Issawi, *Egypt in Revolution: An Economic Analysis* (London: Oxford University Press, 1963), 279.

<sup>241</sup> Ibid.

<sup>242</sup> Ibid.

mechanisms for local industries and a source of revenue for the state.<sup>243</sup> In addition, the introduction of price differentials on domestic products in 1966-1967 raised the proportion of consumption taxes in total tax revenues from 12 percent in 1955 to 31 percent.<sup>244</sup> Despite the fact that the latter is narrowly based, its impact on lower income groups is likely to have been more significant than customs, which were mostly levied on luxurious imported consumer goods. Although little is known about the distributive effects of the Egyptian tax system, a rare study by Reda El Adel in 1982 suggested that the system was generally progressive.<sup>245</sup> Over the period 1958-1974, taxes raised the income shares of lower spending groups particularly in urban areas.<sup>246</sup> According to El Adel, gross indirect taxes have a progressive effect in rural areas and their slightly regressive effects in urban areas have been offset by subsidies.<sup>247</sup> In contrast, the country's reliance on indirect taxes has been highlighted by others as proof of the tax system's regressive nature.<sup>248</sup>

Notwithstanding the significance of this debate, the relative dominance of corporate profit taxes in Egypt's public financing structure since the 1970s sets it apart from many developing countries with inequitable systems that are predominantly reliant

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<sup>243</sup> Customs ranged from 0 to 3000 percent.

<sup>244</sup> Figures exclude customs on imported goods that are predominantly consumed by higher-income groups, calculated from M. Reda A. El-Edel, "Impact of Taxation on Income Distribution: An Exploratory Attempt to Estimate Tax Incidence in Egypt," in *The Political Economy of Income Distribution in Egypt*, ed. Judah Abd al-Khaliq and Robert L. Tignor (New York: Holmes and Meier, 1982), 140.

<sup>245</sup> Ibid.

<sup>246</sup> Ibid.

<sup>247</sup> Ibid.

<sup>248</sup> Waterbury, *The Egypt of Nasser and Sadat: The Political Economy of Two Regimes*; Ibrahim Hassan El-Issawy, "Interconnections between Income Distribution and Economic Growth in the Context of Egypt's Economic Development," in *The Political Economy of Income Distribution in Egypt*, ed. Judah Abd al-Khaliq and Robert L. Tignor (New York: Holmes and Meier, 1982).

on indirect taxation. Indeed, the expansion of the welfare regime's egalitarian component, in the form of the subsidy system, in the 1970s and early 1980s coincided with the influx of exogenous financing. Egypt's tax structure, in fact, reflects the state's dependence on revenues from petroleum and the Suez Canal, which are incorporated in the budget as business profit taxes. Business profit taxes on average represented a third of total tax revenues between 1976 and 1982 and the biggest source of the state's financing.<sup>249</sup> Rents represented an increasing proportion of revenues before the Economic Reform and Structural Adjustment Program (ERSAP) from 11 percent in 1976 to 15 percent in 1979 and 35 percent in 1980-1981.<sup>250</sup> In fact, access to significant rents has rendered public expenditure, including welfare financing, less dependent on domestic extraction through indirect taxes affecting lower income brackets. Between the years 1976 and 1979 subsidies cost on average 15 percent of total government revenues<sup>251</sup> while indirect consumption taxes represented only 12 percent.<sup>252</sup> The gap between these two ratios further widened during the period 1982-1986 as subsidies hit 19 percent of revenues while indirect taxes remained constant.<sup>253</sup>

I argue that three important sets of dynamics were conducive to the emergence of Egypt's insurance-based egalitarian welfare regime under the etatist system. The first dynamic was the state's attempts to expand the ranks of, and consolidate support among, the urban middle and lower middle classes through a set of redistributive policies

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<sup>249</sup> Sadiq Ahmed, *Public Finance in Egypt: Its Structure and Trends* (Washington, DC: World Bank, 1984), 19.

<sup>250</sup> Ibid., 11.

<sup>251</sup> Calculated from Ibid., 45.

<sup>252</sup> Calculated from Ibid.

<sup>253</sup> Calculated from Ibid and Sadowski, *Political Vegetables?: Businessman and Bureaucrat in the Development of Egyptian Agriculture*, 18.

collectively known as the “social contract.” These top-down policies included the introduction of free education and guaranteed public employment for graduates of universities and higher institutes. The second dynamic was the pursuit of ISI based industrialization as well as the adoption of Egyptianization and nationalization laws in 1956 and 1962. Under the twin banners of accumulation and redistribution, these policies did not only usher in the introduction of state planning and heavy intervention in the economy, but also direct state control over the main assets in the economy. As a result of the expansion in formal employment and the state’s direct involvement in the production process, social insurance schemes emerged as a major component of Egypt’s welfare regime in addition to the universal food subsidy system, which has remained the main mechanism for extending income security to the poor. Lastly, the third dynamic influencing the welfare regime’s development was Nasser’s adoption of Arab socialism as official state ideology. Indeed, since the extension of social rights was essential to the regime’s legitimacy under Nasser, Egypt officially developed a comprehensive social insurance system. This section begins by briefly outlining the evolution and features of social insurance schemes followed by cash transfers, income generation projects and finally food subsidies.

#### **A. Social Insurance**

The urban middle classes were singled out under Nasser’s social welfare reforms. Indeed, the first welfare reform enacted by Nasser’s regime was the introduction of an insurance scheme for state employees in 1952. This would be followed in the years between 1953 and 1963, by legislation gradually extending further social insurance

benefits to various segments of the state bureaucracy.<sup>254</sup> As a result, the reforms led to the dramatic expansion of insurance coverage among state bureaucrats, with the number of beneficiaries rising from 138,000 in 1953/ 1954 to 615,000 in 1960/1961.<sup>255</sup> Employment expansion in the formal sector and the state's commitment to employ all graduates of higher education institutions in the civil service and public sector served to consolidate Egypt's insurance-based welfare regime and extend income security to a rapidly expanding middle class. Indeed, "Public employment grew by about 70 percent from 1962 to 1970, at a time when growth in national employment as whole did not exceed 20%."<sup>256</sup>

In a series of legislative acts between 1956 and 1964, social insurance schemes were rapidly also extended to workers beyond the urban centers of Cairo and Alexandria with coverage gradually incorporating all workers regardless of firm size.<sup>257</sup> As shown below in Table 2.1, these measures led to the quadrupling of the number of insured between the years 1960 and 1965, a period coinciding with the state's enactment of nationalization measures in 1962. In later years, there were various attempts to consolidate social insurance schemes and introduce coverage for: the self-employed (1976); casual workers (1980); and workers employed abroad (1973).<sup>258</sup> As a result,

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<sup>254</sup> Laws 316/ 1952, 269/ 1953, 381/1955, 394/1956, 157/ 1958, 162/ 1958, 1338/ 1958, 36/ 1960, 50/1963. See Alfons Shehata, *The General Features of Social Policy in the Area of Social Insurance* (Cairo: Al Markaz Al Iqlmy Al Araby, 1989), 100-105

<sup>255</sup> Ibid., 103.

<sup>256</sup> Carrie Rosefsky Wickham, *Mobilizing Islam : Religion, Activism, and Political Change in Egypt* (New York: Columbia University Press, 2002), 27.

<sup>257</sup> laws 419/1955, 114/1956, 233/1957, 18/1959, 63/1964, 75/ 1964 See Shehata, *The General Features of Social Policy in the Area of Social Insurance*, 100-105.

<sup>258</sup> Coverage for these schemes includes old age, invalidity and death.

according to a 2005 World Bank study, the coverage rate in Egypt is high by regional standards at 65 percent of the labor force.<sup>259</sup>

Whereas the employment-based welfare regime extends differential benefits depending on wage levels, two key features of Egypt's social security system serve to promote relatively egalitarian outcomes. Although social insurance schemes are co-financed by the employer, the beneficiary, and the public treasury, which contributes 1 percent of the annual pensionable salary regardless of earnings levels, a modest upper ceiling on monthly earnings for contribution and benefit purposes is set at \$214.<sup>260</sup> Given that salary levels typically exceed the maximum monthly salary and actually averaged \$624 in 2005,<sup>261</sup> this feature of the social security system serves to moderate inequity. In addition, since the early 1980s, the contribution-based pensions funds have constituted the major source of financing for social assistance schemes targeting the working poor. Indeed, the funds cross-subsidize the generous Comprehensive Social Insurance Scheme (CSIS) which, as elaborated in the next section, constitutes the country's biggest cash transfer scheme.<sup>262</sup>

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<sup>259</sup> Robalino, Whitehouse, and World Bank, *Pensions in the Middle East and North Africa: Time for Change*, 55. Coverage is estimated at 93% if the non-contributory Sadat Pension Plan is included.

<sup>260</sup> The employer contributes 15 percent of the covered monthly payroll plus 2 percent of base monthly payroll for lump sum benefits, while the beneficiary contributes 10 percent and 3 percent respectively. The maximum monthly salary for pensions purposes includes both base and variable earnings. US Social Security Administration Office of Policy, "Social Security Programs Throughout the Worlds: Africa, 2007" <<http://www.ssa.gov/policy/docs/progdesc/ssptw/2006-2007/africa/egypt.html>>

<sup>261</sup> The average wage figure is derived from official statistics by the Central Agency for Organization and Administration cited in Omneya Helmy, "Towards Developing the Minimum Wage Policy in Egypt," *The Egyptian Center for Economic Studies: Perspectives on Economic Policy* no. 18 (June 2006).

<sup>262</sup> Loewe, "New Avenues to Be Opened for Social Protection in the Arab World: The Case of Egypt."

Egypt's universal social insurance system has been characterized as "one of the most comprehensive in Africa and the Arab World."<sup>263</sup> The current mainstream pension scheme set up by law 79/1975, unified coverage for all government, public, and private sector employees who are subject to the labor law provisions. Beneficiaries of this scheme represented more than 55 percent of all pensioners and 84 percent of contributors in 1998.<sup>264</sup> The system is co-financed by the employer, the beneficiary, and the public treasury with the latter's contribution set at 1 percent of the annual pensionable salary. Although voluntary occupational private funds were introduced in 1975 to extend additional pension benefits<sup>265</sup> and they numbered close to 600 by 2005<sup>266</sup>, the state continues to dominate inter-temporal transfers mechanisms designed to mitigate risks. Indeed, it is estimated that the proportion of employees depending on the state for their retirement income is as high as 98 percent<sup>267</sup> and the state's aggregate contributions to pension funds are 70 to 75 percent of its resources.

By the late 1960s, the system encompassed old age, disability, maternity, health and unemployment benefits, a fact reflecting the state's ideological commitment to Arab socialism. However, the development of risk coverage has been uneven. On the one

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<sup>263</sup> Destremau, "Overview of Social Protection in Southern and Eastern Mediterranean Countries," 30; A.S.M.Kashef., "Egypt," in *Social Welfare in the Middle East*, ed. John E. Dixon (London: Croom Helm, 1987).

<sup>264</sup> Loewe, "New Avenues to Be Opened for Social Protection in the Arab World: The Case of Egypt."

<sup>265</sup> The overwhelming majority of these schemes cater to public sector employees. Ibid.

<sup>266</sup> Robalino, Whitehouse, and World Bank, *Pensions in the Middle East and North Africa: Time for Change*, 174.

<sup>267</sup> Gala Ismail Mohamed A. Maait, and Zaki Khorasane, "The Effects of Privatization and Liberalization of the Economy on the Actuarial Soundness of the Egyptian Funded and Defined Benefits Social Security Scheme," in *International Research Conference on Social Security* (Helsinki: 2000), 21.



hand, the old age pension which aims to provide as much as 80 percent of average salary has continued to be generously financed. As a matter of fact, the state has attempted to maintain real pension levels in the face of inflation, a policy that yielded results since the nineties.<sup>268</sup> In addition, schemes have been adapted to new risks as exemplified by a recent legal amendment allowing the husband to inherit his wife's pension.<sup>269</sup>

Health insurance, on the one hand, was not fully implemented in the 1960s due to shortage of funding<sup>270</sup> and only 30 percent of the population opted for health insurance coverage, according to a recent study.<sup>271</sup> Similarly, unemployment benefits are inadequate since new entrants to the labor market who constitute the majority of the unemployed are not covered. Although unemployment benefits amount to 60 percent of last salary and are considered exceptional by regional standards, they are ineffective given the low basic salaries level and their limited duration for 28 weeks.<sup>272</sup>

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<sup>268</sup> In the mid-eighties, the calculation of the basic salary, upon which benefits levels are based, was amended to include variable income in order to accommodate the growing gap between real and nominal pension levels. In addition, the state annually raised pensions by 10% since the mid-eighties, though this did not seriously affect real pension levels until the decline in inflation following ERSAP.

<sup>269</sup> Berham Attallah, "Pension Funds to Where?" *Ketab Al Ahram Al Iqtisady*, no. 224 (2006).

<sup>270</sup> Shehata, *The General Features of Social Policy in the Area of Social Insurance*.

<sup>271</sup> Loewe, "New Avenues to Be Opened for Social Protection in the Arab World: The Case of Egypt," 7.

<sup>272</sup> Noha El-Mikawy, "Perceptions of the Social Role of the State in Egypt," in *Discourses in Contemporary Egypt: Politics and Social Issues*.

**Table 2.1: The Number of Insured Workers since the Establishment of the Public Agency for Social Insurance in 1956<sup>273</sup>**

| <i>Year</i> | <i>Number of Insured in Thousands</i> |
|-------------|---------------------------------------|
| 1956        | 75.4                                  |
| 1957        | 102.2                                 |
| 1960        | 309.9                                 |
| 1965        | 1150.4                                |
| 1970        | 1548.9                                |
| 1975        | 1864                                  |
| 1980        | 3282                                  |
| 1985        | 4150                                  |
| 1986        | 4282                                  |
| 1987        | 4450                                  |

Along the lines of insurance-based welfare regimes elsewhere, Egypt's pension system is stratified and administratively fragmented. Indeed, there are five occupationally based social insurance schemes, extending varied legal benefits and differential coverage of risks. This has been criticized by some on the grounds of crowding out labor from the private sector and creating labor market distortions.<sup>274</sup> Whereas the General Insurance Scheme--the mainstream plan that covers 50 percent of the workforce--extends the full range of benefits, those enrolled under the Scheme for the Self-Employed do not receive health, maternity or unemployment benefits.<sup>275</sup> Generous special schemes, entirely

<sup>273</sup> Shehata, *The General Features of Social Policy in the Area of Social Insurance*. 104.

<sup>274</sup> See Loewe, "New Avenues to Be Opened for Social Protection in the Arab World: The Case of Egypt." Evidence from fieldwork interviews indicates that groups targeted by the SFD for SME credit typically hold out for government jobs in order to access social security benefits. Therefore, young entrants to the labor market avoid taking SFD loans through banks, to avoid being eliminated from the queue for government jobs and they engage in seasonal work in the private sector with no formal contracts, again to become eligible for the state employment at a future date. The schemes include 9/1975, 108/1976, 50/1978, 112/1980 in addition to special schemes for members of the armed forces.

<sup>275</sup> Ibid., 7

financed by the public treasury, cater to the top bureaucracy and the army while members of professional associations and employees of foreign and large Egyptian companies enjoy access to higher pensions and better medical treatment.<sup>276</sup> Institutionally, as well, the system is fragmented. The mainstream system operates through two funds supervised by the National Organization for Social Insurance (NOSI): one is for civil servants and the other is for all other categories of the population, including public and private sector employees as well as the self-employed. In addition, line ministries independently administer special insurance schemes for high-ranking state officials.

### **B. Cash Transfers**

In contrast to the rapid development of social insurance, non-contributory cash transfer schemes for the poor lagged behind. Although Egypt's 1950 non-contributory social security scheme was followed by legislative acts in 1964 and 1977, which extended eligibility to additional groups and raised pension amounts<sup>277</sup>, non-contributory assistance has continued to be marginalized. In fact, the World Bank estimates that social assistance programs administered by the Ministry of Social Solidarity (MOSS) represent only 0.1 percent of the country's GDP in 2005, which is very modest compared to the cost of the food subsidies program of 1.7 percent of the GDP.<sup>278</sup> The low amounts disbursed have been widely criticized as a fundamental reason for the system's ineffectiveness. Economist Heba Handoussa estimates that the average benefit level

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<sup>276</sup> Ibid.

<sup>277</sup> Mohamed El Ghamry, *Escaping Poverty: Social Security in the Balance* (Cairo: Markaz Qadaya Al Maraa, 2000).

<sup>278</sup> World Bank, "Egypt toward a More Effective Social Policy: Subsidies and Social Safety Net " (Washington, DC: The World Bank, 2005).

covers only 25 percent of expenditure level of the poor in 1994.<sup>279</sup> According to the 1996 *Egypt Human Development Report*, 19.5 percent of the poor are covered by cash transfer schemes,<sup>280</sup> while a more recent assessment puts the figure at less than 12 percent.<sup>281</sup> As a result, according to World Bank figures, only 0.6 percent of the poor were raised above the poverty line in 2005 by virtue of social assistance schemes.<sup>282</sup>

Social assistance schemes under MOSS officially target constituencies that “have not worked enough to qualify for insurance and those unable to work.”<sup>283</sup> In other words, the schemes are considered supplementary to mainstream employment-based insurance payments, which constitute the core of Egypt’s welfare regime. Access to social assistance is not emphasized as a citizenship right, unlike insurance coverage which is legally a universal right of all Egyptians. Further, a recent micro-level study of welfare services in Egypt reveals that bureaucrats in Social Affairs Directorates tend to approach applicants as socially devious and beneficiaries of the state’s largesse as opposed to rights bearers.<sup>284</sup> The programs are means-tested entailing a home visit by social workers following an initial application supported with official documentation. The bureaucracy, red tape, and the fact that social workers inquire about applicants in their communities, thereby exposing their neediness, all hinder access by the poor.

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<sup>279</sup> Iman Bibars, *Victims and Heroines : Women, Welfare and the Egyptian State* (London: Zed, 2001), 86.

<sup>280</sup> United Nations Development Programme, *Egypt Human Development Report on Poverty* (Cairo: Institute of National Planning and United Nations Development Programme, 1996), 13.

<sup>281</sup> World Bank, *Egypt toward a More Effective Social Policy: Subsidies and Social Safety Net* (Washington, DC: The World Bank, 2005).

<sup>282</sup> Ibid. 13

<sup>283</sup> Ministry of Insurance and Social Affairs, *Ministry of Insurance and Social Affairs: Founding, Mandates and Aims* (Cairo: Al Ahram Publishers, 2000).

<sup>284</sup> Bibars, *Victims and Heroines: Women, Welfare and the Egyptian State*.

Currently, MOSS administers three programs of social assistance.<sup>285</sup> First, the Social Security Scheme (SSS) targets orphans, widows, prisoner families and divorcees. The amounts disbursed were 33 L.E. in 1996<sup>286</sup> and have been raised in 2005 to L.E. 60-80 per individual, depending on the family size.<sup>287</sup> Second, the CSIS is the largest cash transfer program with 34.4 percent of all beneficiaries in 1998.<sup>288</sup> It targets casual workers and small business owners in the informal sector between the ages of 18 and 65. Although the beneficiaries contribute L.E. 1 a month, most of the financing for the program comes from the state-managed pensions fund and payments start on retirement. The amount disbursed was L.E. 12 in 1980 and was raised to L.E. 57 in 1998.<sup>289</sup> Third is the Sadat Pension Plan (SPP) which was originally envisioned as a temporary scheme, until the CSIS achieves universal coverage. The SPP extends non-contributory pension to the destitute, mostly in the agricultural sector, who cannot afford CSIS monthly payments. The monthly payments were 37 LE in 1994/1995 and were raised to LE47 in 1997.<sup>290</sup> According to an insurance expert, SPP covered 6 million people or a third of the labor force in 2007 and although it is non-contributory, he contends that it “does not

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<sup>285</sup> The state also runs a fourth scheme extending child assistance but it is relatively small with an annual budget of 20 million pounds in 2005/06.

<sup>286</sup> United Nations Development Programme, *Egypt Human Development Report on Poverty* (Cairo: Institute of National Planning and United Nations Development Programme, 1996).

<sup>287</sup> Government of Egypt, *State Information Service Yearbook* (Cairo: Egypt State Information Service, 2006). <http://www.sis.gov.eg/En/Pub/yearbook/yearbook2006> accessed on October 2, 20

<sup>288</sup> The scheme is legally considered an insurance plan under Law 112/1980, therefore the percentage of beneficiaries is relative to the total insured beneficiaries. Mohamed A. Maait, "The Effects of Privatization and Liberalization of the Economy on the Actuarial Soundness of the Egyptian Funded and Defined Benefits Social Security Scheme."

<sup>289</sup> Ibid.

<sup>290</sup> United Nations Development Programme, *Human Development Report on Public Spending* (Cairo: Institute of National Planning and United Nations Development Programme, 1997/1998), 6.

represent a burden on the state's treasury or insurance funds.”<sup>291</sup> The scheme has a higher ratio of female to male recipients than all other schemes, a sign that it is well targeted.

### **C. Income Generation Schemes**

Aside from employment-based insurance schemes and cash transfers for the poor, Egypt's insurance-based welfare regime has incorporated income-generation schemes for the marginalized since 1964. These programs have expanded their operations in recent years. The MOSS runs two income generation schemes: the Productive Families Program (PFP) and the Nasser Social Bank (NSB). Both government programs do not receive substantial state funding.<sup>292</sup> While the former is donor-financed, most notably by the SFD, the latter draws on private financing through *Zakat* or alms. For the purposes of analysis here, I focus on the PFP.

The PFP, an offshoot of the 1941 social centers initiatives in the countryside, was established in 1964. The program is administered under the umbrella of a national level Governmental-NGO (GNGO) linked to the MOSS. It extends small short turnover loans at subsidized rates, currently 10 percent, in addition to marketing and training for income-generating activities.<sup>293</sup> The sponsored projects are officially supposed to raise

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<sup>291</sup> Mohamed Talaat El Hewary, “Dr Sami Naguib the Insurance Expert: Canceling the Social Insurance Ministry...is A Catastrophe” *Al Masry Al Youm* July 5, 2007, 14. World Bank figures are also comparable, see Robalino, Whitehouse, and World Bank, *Pensions in the Middle East and North Africa: Time for Change*.

<sup>292</sup> Ministry of Finance, *The State Public Budget 2005-2006* (Cairo: Ministry of Finance, 2005), Majles El Shaab, *Report on Proposed State's Public Budget for the Financial Year 2004-05 and the Proposed Plan for Socio-Economic Development for 2004-05* (Cairo, 2004).

<sup>293</sup> Ministry of insurance and Social Affairs, *The National Project for Productive Families* (Cairo: Dar El Hilal), 7.

the income of beneficiary households by around 20 percent.<sup>294</sup> Budget allocations to the PFP have been modest in recent years; instead donors, the SFD, and various independent funds have financed the program. By 1998, total number of beneficiary families were approximately 991 thousand out of which only 375 thousand were financed by the PFA's own funding.<sup>295</sup>

The PFP originally targeted rural women and sought to encourage the use of "leisure time in investments employing environmental resources" with the aim of increasing household income.<sup>296</sup> Characterized as a "social program with an economic tint",<sup>297</sup> the purposes of PFP gradually evolved beyond their initial rural focus. Eligible groups for PFP credit are officially defined as: graduates of rehabilitation centers and prisons, victims of natural disasters, poor female headed households, widows, the disabled, recipients of social assistance or those with an income less than L.E.100. The number of beneficiaries has exponentially increased in recent years from 73 thousand in 1981<sup>298</sup> to 2 million in 2008.<sup>299</sup> As we will elaborate further in chapter IV, the PFP has partnered with the SFD since 1993 in the provision of subsidized micro-credit. This development led to the redirection of the PFP towards limited income groups.

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<sup>294</sup> Ibid., 10.

<sup>295</sup> Ibid., 9.

<sup>296</sup> Ministry of Insurance and Social Affairs, *Project on Improving Planning Approaches: The Guide for the Ministry's Income Generating Projects* Ismailiya: the center for Comprehensive Rehabilitation of the Disabled Press, 14.

<sup>297</sup> Ibid., 12.

<sup>298</sup> Heba El-Laithy, "Evaluating the Social Fund for Development Programs to Alleviate Poverty " in *Proceedings of the Conference on Socioeconomic Policies and Poverty Alleviation Programs in Egypt*, ed. Heba Nassar and Heba El Laithy (Cairo: Cairo University Press, 2001), 201.

<sup>299</sup> National Democratic Party, "Social Development and Poverty Alleviation Policy Paper" (paper presented at the National Democratic Party Annual Congress, Cairo, 2008), 42.

#### D. Subsidies

The food subsidy system gradually played “a significant role in maintaining the real income of the middle and lower income classes,”<sup>300</sup> under the etatist development model. Rationing in the 1950s and early 1960s did not always involve subsidies but was designed to help ensure equitable access to the food supply. Thus, the total budget outlay for the system remained small.<sup>301</sup> In the mid-1960s however in the face of rising domestic food prices, the state restructured and expanded the wartime subsidy system. As part of this process, “public companies for retailing and for importing were formed”<sup>302</sup> and ration cards were issued for households. The food subsidy system consisted of a universal bread subsidy program and a ration card program, which distributes food items at prices significantly lower than average cost in fixed quotas to families through outlets regulated by the then Ministry of Supply. As well, the system made available additional regulated quantities of subsidized commodities, which were typically sold at prices higher than rationed prices, but still less than their average cost. Five commodities-- sugar, oil, rice, tea and bread—were consistently subsidized by the state and constituted the core elements of the system until the mid-1990s.<sup>303</sup>

The significance of subsidies in Egypt’s political economy dramatically increased

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<sup>300</sup> The country’s much debated food subsidies represented a part of a much larger program that subsidized water, electricity, transportation and oil. While the food subsidy has traditionally been listed separately in the state budget, implicit subsidies for the other items have until 2006 never been listed in the official budget. El-Issawy, “Interconnections between Income Distribution and Economic Growth in the Context of Egypt’s Economic Development.”

<sup>301</sup> Harold Alderman, Joachim Von Braun, and Sakr Ahmed Sakr, *Egypt’s Food Subsidy and Rationing System: A Description* (Washington, D.C.: International Food Policy Research Institute, 1982).

<sup>302</sup> Ibid., 24.

<sup>303</sup> Ibid., 117. The government made these five commodities available on a regular basis for all consumers.



in the 1970s as the subsidy system was expanded to cover a variety of foodstuff including beans, lentils, fish, cheese, poultry and meat.<sup>304</sup> At its peak, in 1980, the system covered as many as 20 food items. As a result, subsidies on food, which accounted for less than 1 percent of government expenditures in 1970-71, sharply increased to reach 16.9 percent in 1975 and a high of 19.5 percent in 1981-82.<sup>305</sup>

With 99 percent of the population holding ration books and thus eligible for food subsidies<sup>306</sup>, the subsidy system has been universally accessible since its establishment. In the early 1980s, the state's attempts to cut the subsidy costs led to the introduction of two categories of ration cardholders: fully subsidized (green books) and partially subsidized (red books).<sup>307</sup> Although people in high-income professions--such as investors, owners of shops or buildings or cars and landowners with more than 10 feddans (0.42 hecatres)--were officially eligible for only the partial subsidy<sup>308</sup>, the reform step was implemented on a voluntary basis.<sup>309</sup> As a result, beneficiaries of the partial subsidy remained small in number, representing only 3 percent of the population.<sup>310</sup> Similarly, measures aimed at curbing subsidy beneficiaries by canceling the ration cards

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<sup>304</sup> Darweesh, *Food Subsidies Policies in Egypt*, 20-21.

<sup>305</sup> Richard H Adam, "Self-Targeted Subsidies: The Political and Distributional Impact of the Egyptian Food Subsidy System," *Economic Development and Cultural Change* (2000).

<sup>306</sup> Based on 1981-1982 figures see Abba Abdel Latiff, *Application of Targeting Options to Egypt: Background Study for the Egyptian Social Welfare Program, Research Supported by the Social Fund for Development*, 45.

<sup>307</sup> The latter category benefited from 50%-75% of the full subsidy accruing to green ration cardholders.

<sup>308</sup> Sonia M. Ali and Richard H. Adams, "The Egyptian Food Subsidy System: Operation and Effects on Income Distribution," *World Development* 24, no. 11 (1996): 1779.

<sup>309</sup> Abba Abdel Latiff, *Application of Targeting Options to Egypt: Background Study for the Egyptian Social Welfare Program, Research Supported by the Social Fund for Development*, 47.

<sup>310</sup> Ibid.

of people who were deceased or residing abroad as well as stopping the registration of new-born children into the system in the late 1980s, led to a slight decline in the number of ration-card holders to 88 percent of the population by 1991-1992.<sup>311</sup>

Indeed, the food subsidy system evolved beyond serving as a mechanism for ensuring adequate distribution and availability of low priced commodities to *de facto* constitute an instrument of income security among the poor. As put by the Minister of Planning in 1979 “through indirect means the state was increasing each Egyptian family’s effective income by 35% on average.”<sup>312</sup> More recently, subsidies were estimated to represent an income transfer of 3.1 percent of total spending per capita.<sup>313</sup> Both micro-studies of the subsidy system’s accessibility by poor households as well as quantitative analysis of its distributional impact demonstrate its role as an income security mechanism.

Indeed, qualitative analysis highlights the tendency for poor households to develop long established relations with grocers from whom they purchase the rationed goods from and their ability to flexibly “receive the total quota or part of it and pay later or by installments.”<sup>314</sup> Further, detailed statistical analysis the food subsidy system in the 1980s revealed that the system “transfers a significant amount of income”<sup>315</sup> and has “a

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<sup>311</sup> Ibid., 48. The latter measure was reversed in 2007 as the state re-introduced registration of newborn children to the system.

<sup>312</sup> Waterbury, *The Egypt of Nasser and Sadat: The Political Economy of Two Regimes*, 78.

<sup>313</sup> Ahmed, *The Egyptian Food Subsidy System : Structure, Performance, and Options for Reform*.

<sup>314</sup> Latiff, A. A. and A. Kamel (1993). Abla Abdel Latiff, *Application of Targeting Options to Egypt: Background Study for the Egyptian Social Welfare Program, Research Supported by the Social Fund for Development*, 53.

<sup>315</sup> Harold Alderman and Joachim Von Braun, *The Effects of the Egyptian Food Ration and Subsidy System on Income Distribution and Consumption* (Washington, D.C.:

clearly progressive effect on income distribution.”<sup>316</sup> This is especially the case since the food subsidy system has been predominantly financed from external inflows accruing to the state rather than consumption taxes.

In light of the system’s reliance on food imports,<sup>317</sup> its impact on farmers as producers has been small. Even when taking these into consideration indirect taxation in the cases of the few domestically produced items,<sup>318</sup> Harold Alderman and Joachim Von Braun argued that the subsidy system is overall pro-poor. More specifically, their assessment of the subsidy system’s distributional impact as progressive is based on two central findings. The first is, in both rural and urban areas, absolute subsidy amounts do not positively co-vary with income levels, which indicates that the system is geared

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International Food Policy Research Institute, 1984), 37. For farmers, the subsidy system constituted an instrument of income security. This the case since subsidies on food were accompanied by the expansion of state-controlled agricultural cooperatives, whereby the state monopolized the purchase and distribution of agricultural commodities as well as provided subsidized fertilizers and inputs. Alderman and Braun’s study shows that while farm households lost from implicit taxation of basic food crops and cash crops, they gained from protection of animal produce as well as input subsidies. Whereas the overall net effect of these interventions is a loss in the income of the rural population, the net loss is concentrated among bigger farmers with more than five feddans. In other words, for both small and medium farmers (i.e. those with up to five feddans of land) subsidies on the consumption side overcompensated for the losses on the production side. For landless farmers, their share of subsidies, as a proportion of their share in total income, was high at 157.1% of their equity share, 44-45. For more on agricultural sector see, Sadowski, *Political Vegetables?: Businessman and Bureaucrat in the Development of Egyptian Agriculture*.

<sup>316</sup> Ibid. 98.

<sup>317</sup> For instance, in 1997/1998, 77.4 percent of all subsidized wheat and 90% of cooking oil were imported. See, Ahmed, *The Egyptian Food Subsidy System : Structure, Performance, and Options for Reform*.

<sup>318</sup> In this context, Alderman uses the term “distorted farm producer prices” to refer to prices of agricultural products that are depressed below international levels. While some subsidized food items were typically imported, such as lentils and tea, other products such as, rice and meat products, were locally produced and sold at set prices. Ibid.

towards reducing inequality.<sup>319</sup> The second is, while there is an urban bias effect in the distribution of rationed food, the subsidy system was found to help reduce the gap between rural and urban income distribution.<sup>320</sup> Thus, whereas subsidized food was 33 percent less available in rural areas, the difference in household incomes across rural and urban areas was, in fact, 10 percent higher at 43 percent.<sup>321</sup>

The enactment of neoliberal reform measures in 1991 led to the limiting of subsidized rationed food to three items: sugar, cooking oil and wheat flour.<sup>322</sup> Nonetheless, the subsidy on bread remained universal although it was now limited to one type only. While the food subsidy amounted to 7.4 percent of government expenditure in 1990-91, following the implementation of the ERSAP that figure dropped to 5 percent in 1991-92 but steadily increased to reach 6.5 percent in 1996-97.<sup>323</sup>

According to World Bank estimates, spending on food subsidies, as a percentage of the GDP, declined between 1993 and 1999, but has been on an upward trend between 2000 and 2005, rising from 0.85 to 2 percent of the GDP.<sup>324</sup> In the face of exchange rate depreciation by more than 20 percent, seven items were added to the list of ration-card subsidized foodstuffs. Together with the increase in the international price of wheat, this step led to an overall subsidy cost increase by about 78 percent in 2003 alone.<sup>325</sup> The reversal of subsidy cuts trend has not only been maintained in recent years but has also been accompanied by the expansion of the ration-card system beneficiaries as the state

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<sup>319</sup> Ibid., 41

<sup>320</sup> Ibid.

<sup>321</sup> Ibid.

<sup>322</sup> Ibid.

<sup>323</sup> Ibid., 119

<sup>324</sup> World Bank, *Egypt toward a More Effective Social Policy: Subsidies and Social Safety Net* (Washington, DC: The World Bank, 2005), 27-28.

<sup>325</sup> Darweesh, *Food Subsidies Policies in Egypt*, 23.

launched an effort to register new households into the system. This step, in turn, led to the addition of 15 million individuals to the subsidy system.

Studies by Adams and Korayem favorably evaluate the post-reform system arguing that subsidies, particularly the *baladi* bread, largely target the poor due to the inferior goods covered.<sup>326</sup> The results of a 1997 household survey by the International Food Policy Research Institute, however, indicate that despite efforts aimed at achieving pro-poor self-targeting, the benefits of the post-reform subsidy system have remained more or less equally distributed across all income groups.<sup>327</sup> Further, since the incidence of poverty, based on the upper poverty line, was estimated at 42 percent in 2000,<sup>328</sup> the universal system has predominantly benefited the non-poor majority.

Whereas subsidies have had a relatively large impact on the poor, the non-poor absorbed the majority of the public funds allocated to the system.<sup>329</sup> Across Egypt's metropolitan, urban and rural governorates, subsidies constituted a significant income transfer for the lowest quintiles ranging from 6.1 to 8 percent of total expenditures; while in contrast the transfer declined to between 1.2 and 2.1 percent for the highest income quintile.<sup>330</sup> Nonetheless, the value of total benefits from the food subsidy system going to the non-needy, or the upper 60 percent of the population, was estimated at almost LE 2

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<sup>326</sup> Jaudah Abd al-Khaaliq, and Korayem, Karima, *Fiscal Policy Measures in Egypt: Public Debt and Food Subsidy* (Cairo: American University in Cairo Press, 2001).

<sup>327</sup> Ahmed, *The Egyptian Food Subsidy System: Structure, Performance, and Options for Reform*.

<sup>328</sup> kheir-El-Din and El-Laithy, "An Assessment of Growth, Distribution and Poverty in Egypt: 1990/91-2004/05," 9.

<sup>329</sup> Ahmed, *The Egyptian Food Subsidy System: Structure, Performance, and Options for Reform*, 45.

<sup>330</sup> Ibid, 54.

million or about half of the total subsidy costs in 1997.<sup>331</sup> Further, combining the system leakage with targeting inefficiency reveals that “only about one-third of the total food subsidy paid for by the government (L.E. 1,224.4 million in 1997) goes to the needy, of which benefits from *baladi* bread account for 64.9 percent; wheat flour, 12.8 percent; sugar, 12.2 percent; and cooking oil, 10.1 percent.”<sup>332</sup>

To sum up, I would argue that the establishment of Nasser’s regime marked a critical juncture in the evolution of Egypt’s welfare regime. This conjuncture was shaped by state interests, the etatist development model, as well as by official ideology. The state’s interest in creating a power base of support among the urban middle class led to the creation of avenues of mobility for this constituency and the rapid expansion of public employment. The structural foundations of the etatist development model, including the pursuit of ISI and the state’s direct involvement in the production process, served to cement an employment-based egalitarian insurance regime. The ideological influence of Arab socialism has also led to the rapid expansion of the social insurance system, at a pace beyond the state’s available resources in some cases such as, health benefits. While Egypt developed a welfare regime catering to the interests of the middle classes and the formal working class, its pro-poor cash transfers remained inadequate, under-funded and designated as supplementary to the employment-based system. The universal food subsidy system, which was set up during World War II and expanded after the mid-1960s, constituted a key egalitarian mechanism for extending income security to the poor. Lastly, income generation schemes, which have considerably expanded in recent years, were originally small-scaled initiatives targeting the rural poor.

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<sup>331</sup> Ibid, 55.

<sup>332</sup> Ibid.

## II. Hidden Retrenchment 1987-

Unlike the critical juncture marking the consolidation of the welfare regime in the 1950s under Nasser, hidden retrenchment has followed a long buildup of pressure<sup>333</sup> rather than a contingent historical breaking point, which sharply served to undermine the mechanisms reproducing the prevailing institutions. According to Waterbury, Egypt's longstanding economic crisis deepened in the late 1980s, since "falling petroleum revenues (until the Gulf crisis of the summer of 1990) and worker remittances were coupled with continued huge public deficits, high inflation and accumulating arrears on more than \$40 billion in external debt."<sup>334</sup> Although the accumulation crisis facing the country's statist development model dates back to the late 1960s and the challenges of ISI deepening, the state's access to external financing until the late 1980s allowed it to largely maintain its welfare responsibilities.

The process of welfare regime retrenchment in Egypt has unfolded in two phases. In the initial phase of the late 1980s, social expenditure rates dropped sharply from 30 to 17 percent of the GDP (see Table 2.2). During this phase of retrenchment, the structure of social provision remained unchanged but the state sought to lower spending through quiet reform techniques, such as gradually reducing the quantity of a particular subsidized food or replacing it with a more expensive version.<sup>335</sup>

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<sup>333</sup> For a discussion of conjunctures and path dependence see, Pierson, *Politics in Time : History, Institutions, and Social Analysis*, 134-5.

<sup>334</sup> Waterbury, *Exposed to Innumerable Delusions: Public Enterprise and State Power in Egypt, India, Mexico, and Turkey*, 141.

<sup>335</sup> For a discussion of bread subsidy reforms in the 1980s see Ahmed, *The Egyptian Food Subsidy System : Structure, Performance, and Options for Reform*, 9.

**Table 2.2 Development of Social Expenditure as a share of the GDP since 1981**

| 1981-1986 | 1987-1989 | 1990-1994 | 1995-1999 <sup>336</sup> | 2000-2006 |
|-----------|-----------|-----------|--------------------------|-----------|
| 30%       | 17%       | 13%       | 8%                       | 17%       |

Source: IMF, *Government Finance Statistics* and IMF, *International Financial Statistics* (various issues).

The second phase of systemic retrenchment<sup>337</sup> was ushered by the implementation of structural adjustment reforms in 1991. Although systemic retrenchment did not coincide with the explicit overhaul of social protection institutions, it was marked by significant shifts in the political economy of welfare. The first was the introduction of fiscal reforms, designed to raise indirect taxation levels, which coincided with declining welfare spending. These reforms resulted in weakening the welfare regime's egalitarian component and signaled the state's abandonment of income redistribution. The second significant change associated with systemic retrenchment was the establishment of a new organization, the SFD. In a departure from mainstream social protection programs, the fund officially operates on the bases of geographic and sociological targeting criteria and its founding marked the advent of small and micro-business finance as a new institution in Egypt's welfare regime.<sup>338</sup> Crucially, struggles around the SFD's mission, its operation as an "autonomous" entity and partnership with governmental agencies in program implementation, have been intertwined with hidden retrenchment patterns of dilution, layering and conversion since the early 1990s.

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<sup>336</sup> Due to gaps in available statistics the years 1998 and 1999, the author has estimated health, housing and education expenditures during these two years based on available figures for 1997 and 2000.

<sup>337</sup> I draw on Paul Pierson's notion of systemic retrenchment, which refers to "policy changes that alter the broader political economy and consequently alter welfare state politics." See Pierson, *Dismantling the Welfare State? : Reagan, Thatcher, and the Politics of Retrenchment*, 15.

<sup>338</sup> I consider small and micro-finance or small and micro-enterprise development, an "institution" in the sense that it expresses norms about market-led development and market access as a poverty alleviation mechanism.



### ***A. Fiscal Reforms and the Political Economy of Welfare***

Regressive reforms of taxation policies in the 1990s weakened the Egyptian welfare regime's egalitarian component. Although the government has stopped short of imposing a universal Value Added Tax (VAT), the introduction of the 1991 General Sales Tax (GST) significantly increased indirect taxation. For instance, the 2004 state budget figures show that the GST has become an important source of public financing amounting to 5.6 percent of the GDP and 18 percent of the state's tax revenues.<sup>339</sup> In addition, "maximum rates for incomes from salaries, as well as from commercial, manufacturing, and noncommercial professional activities were substantially lowered, favoring higher income groups with high income elasticity."<sup>340</sup> The reforms granted exemptions to higher income groups investing in corporate equity as well.<sup>341</sup>

The overall impact of these fiscal reforms on the welfare regime could be captured by looking at the ratio of indirect taxes, which predominantly affect lower income groups who spend a proportionally large part of their income on consumption, to the expenditure on subsidies, which benefit these groups. Whereas subsidies as a proportion of state revenues have been consistently higher than receipts from indirect taxes in the late 1970s and early 1980s, the latter significantly surpassed the food subsidy costs since the early 1990s. Whereas in the period 1982-1986 subsidies amounted to almost 19 percent of revenues and indirect taxes were only 12 percent, between 1991 and

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<sup>339</sup> William Crandall and Jean Paul Bodin, "Revenue Administration Reform in Middle Eastern Countries, 1994-2004," *IMF Working Paper* WP/05/203 (2005).

<sup>340</sup> Eberhard Kienle, "Reconciling Privilege and Reform: Fiscal Policy in Egypt, 1991-2000," in *Networks of Privilege in the Middle East: The Politics of Economic Reform Revisited*, ed. Steven Heydemann (New York: Palgrave Macmillan, 2004), 285.

<sup>341</sup> *Ibid.*

1995 subsidies fell to an average 4 percent and indirect taxes amounted to 12 percent.<sup>342</sup>

Along parallel lines, as highlighted in Table 1.3, comparing indirect taxes and welfare spending levels in relation to the GDP reveals a trend towards inequity since the second half of the 1990s.

### ***B. The SFD and Hidden Patterns of Retrenchment***

Egypt's welfare regime during the phase of systemic hidden retrenchment experienced patterns of institutional change I refer to collectively as "hidden" retrenchment, since they did not coincide with authoritative changes in the prevailing welfare regime. In fact, the establishment of the SFD, which was originally envisioned as the backbone of a restructured welfare regime, constituted an important aspect and trigger of hidden retrenchment processes. These processes of institutional change entailed *dilution* of the food subsidy system, *conversion* of income generation schemes to limited income groups as well as *layering*, or the establishment of a parallel institutional track for social provision, represented by the promotion of small businesses under the SFD. Indeed, the SFD constitutes an important window for understanding the politics of retrenchment in Egypt. The following account begins by providing a brief background on the SFD's program and evolution. Next, the fund's mission and role in hidden retrenchment are discussed.

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<sup>342</sup> Calculated by the author from various issues of International Monetary Fund, *Government Finance Statistics Yearbook* (Washington, D.C.: International Monetary Fund).

### *1.SFD's Programs and Evolution*

Established in 1991 in the wake of structural adjustment reforms, the SFD is one of the biggest Social Funds worldwide, with pledged funds reaching \$1 billion, during just the first eight years of its operations.<sup>343</sup> By 2004, funding by fifteen regional and international donors amounted to \$ 1.5 billion. According to a World Bank study, the SFD is the most important by regional standards both in terms of per capita and per poor person transfers, which are estimated to range between \$83 and \$125 per year.<sup>344</sup> Like other Social Funds (SFs), it was set up as an “autonomous” public agency operating outside the mainstream state structure and line ministries. Chaired by the Prime Minister, the SFD’s board of directors includes eight acting ministers and appointed representatives from the business and NGO sectors.<sup>345</sup>

Based on productivist notions of welfare, the SFD programs are oriented towards improving market access by the marginalized and creating jobs predominantly through promoting the establishment of Small and Micro-Enterprises (SMEs), which tend to fall within the “upper tier of the informal economy.”<sup>346</sup> Although Social Funds, such as Egypt’s SFD, predate the World Bank’s official adoption of the Social Risk Management

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<sup>343</sup>De Haan et al, "Social Funds an Effective Instrument to Support Local Action for Poverty Reduction?," *Jounral of International Development* 14 (2002).

<sup>344</sup> World Bank, *Reducing Vulnerability and Increasing Opportunity: Social Protection in Middle East and North Africa*, 76. It is not clear if the figures cited refer to the per capita or per poor person amounts.

<sup>345</sup> An executive committee, normally headed by the Minister of Finance, is delegated implementation powers and constitutes the main decision-making body of the SFD. Professor of Economics and Head of the Egyptian Center for Economic Studies Hanaa Kheir El-Din, *Interview by Author* (Cairo, Egypt: December 11, 2006).

<sup>346</sup> See discussion in Ragui and Malak Rouchdy Assad, *Poverty and Poverty Alleviation Strategies in Egypt*, vol. 22, Cairo Papers in Social Science (Cairo: American University in Cairo Press, 1999), 63.

framework in 2000, they have been categorized as risk reducing and mitigating mechanisms in the Bank's documents.<sup>347</sup> Social protection initiatives under the SFD deviate from Egypt's mainstream welfare programs in three important respects. Firstly, emphasis on market access as a solution to poverty; secondly, reliance on NGOs as implementing partners; and thirdly operation as a demand-driven<sup>348</sup>-targeted program, which implies the absence of a legally entrenched formal guarantee of support under the SFD programs. The SFD operations have been estimated at 0.2 percent of the GDP in 2004, the second biggest component of the social safety net after subsidies.<sup>349</sup>

The SFD runs five core programs, which have been recently organized into three working groups.<sup>350</sup> First, the community development program (CDP) "assists target population groups by strengthening the institutional capabilities of regional NGOs and PVOs and by mobilizing local grassroots community initiatives."<sup>351</sup> An important component of the CDP is the Micro-Finance Unit (MFU), which cooperates with NGOs as sponsoring agencies in financing income-generating projects targeting the poor on subsidized basis.<sup>352</sup> Second, the Public Works Program (PWP) executes "community-

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<sup>347</sup> See Jorgensen, "Social Risk Management: A New Conceptual Framework for Social Protection and Beyond".. While social funds were initially risk coping instruments of temporary nature, focused on public works projects, their evolution into permanent structures has shifted their mandates to risk prevention (such as labor market interventions) and mitigation (such as support access to microfinance by the poor).

<sup>348</sup> The SFD officially funds projects proposed by communities based on their needs.

<sup>349</sup> World Bank, *Egypt toward a More Effective Social Policy: Subsidies and Social Safety Net* (Washington, DC: The World Bank, 2005), vi. The Bank's figures on social safety net exclude expenditure on contributory pension schemes.

<sup>350</sup> Originally a sixth program of public transport was run by the SFD, however, it was discontinued in the mid-nineties.

<sup>351</sup> Social Fund for Development, and Government of Egypt, *Annual Report* (Cairo: Social Fund for Development, 1993), 43.

<sup>352</sup> The CDP's micro-loans do not fit under Mohamed Yunus's important classification of micro-credit programs into poverty focused, which rely on group solidarity as collateral

based infrastructure primarily in rural areas” in addition to providing temporary and permanent jobs, during the stages of project implementation, maintenance and operation.<sup>353</sup> The program activities, however, have been to a large extent capital-intensive, accounting for a marginal portion of job creation, 0.4 percent in 2002, and a low wage share estimated at 30 percent of the total costs compared to 80 percent in Chile, for instance.<sup>354</sup>

Third, the Human Resource Development Program (HRDP), targets redundant public workers by co-financing their compensation packages and enhancing their access to the labor market through entrepreneurship training, skills training and upgrading the country’s vocational training centers. Fourth, the Enterprise Development Program (EDP), the primary program under the SFD, extends subsidized credit and technical support for small business start-ups as well as sponsors campaigns for spreading the “entrepreneurial culture” on university campuses. The main targeted groups are unemployed university graduates and redundant workers from the public sector. Fifth, the Institutional Development Program (IDP) focuses on institutional capacity building of the SFD, and its implementing partners. Its aims were “to strengthen SFD efficiency and

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and charge low interest, or profit maximizing, which require both regular collateral as well as high interest. See Muhammad Yunus and Karl Weber, *Creating a World without Poverty : Social Business and the Future of Capitalism* (New York: PublicAffairs, 2007).

<sup>353</sup> Social Fund for Development, *Multi-Donor Review of the Social Fund for Development: Final Report*, 74.

<sup>354</sup> World Bank, *Reducing Vulnerability and Increasing Opportunity: Social Protection in Middle East and North Africa*, 74-75.

improve government's ability to monitor the impact of economic restructuring and plan to ameliorate its negative impact."<sup>355</sup>

The relative importance of the SFD's programs has gone through a series of shifts since its establishment in 1991 and start of operations in 1993.<sup>356</sup> Although the IDP was envisioned as the core of the SFD's activities, it was marginalized in the face of resistance from within the state to the operationalization of the SFD's initial goals; to restructure the subsidy and cash transfer systems based on new targeting instruments. Further, the slow pace of privatization led to the marginalization of the HRDP. Although the program received the highest funding and aimed to serve 60,000 out of an estimated 120,000 redundant labor in public enterprises, by 1995 its beneficiaries numbered only 1960, or a mere 1.63 percent of expected redundancy during ERSAP.<sup>357</sup> The fund's search for a role especially in light of resistance to the development of targeting mechanisms and slow privatization, were the backdrop to its shift in focus towards SME development. By 1994, donors allocated the highest funding to EDP amounting to L.E. 912.5 million, or approximately 45 percent of total fund financing.<sup>358</sup> Indeed, the fund's SME credit initiatives under the CDP and EDP emerged as a social protection institutional track parallel to public employment and the mainstream insurance-based welfare regime.

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<sup>355</sup> Nader Fergany, *On the Impact of Economic Restructuring in Human Development and Proposed Strategies to Alleviate Poverty: The Case of Egypt* (Cairo: Al Mishkat Centre for Research, 1994).

<sup>356</sup> For a discussion of the early set-up of the SFD see El-Laithy, "Evaluating the Social Fund for Development Programs to Alleviate Poverty ."

<sup>357</sup> Ibid., 163.

<sup>358</sup> Abba Abdel Latiff, *Application of Targeting Options to Egypt: Background Study for the Egyptian Social Welfare Program, Research Supported by the Social Fund for Development*.

The transformation of the SFD from a temporary safety net to a permanent government agency was a gradual process, which culminated in 2004. The first change in the SFD's "temporary" status began with the issuing of a 1999 presidential decree whereby a Small Enterprise Development Organization (SEDO) was set up under the umbrella of the SFD. The new entity succeeded the EDP and was established "as a second tier financial institution that grants credit lines to banks and NGOs for refinancing loans"<sup>359</sup> to SMEs. SEDO, whose assets and liabilities comprised about 70 percent of the SFD's balance sheet, was envisioned as a quasi-autonomous, financially sustainable profit center.<sup>360</sup>

In 2001, SFD officially became a permanent social development organization. Although a new mission statement was never officially formulated,<sup>361</sup> documents from this period highlight its role as an "agent of change" engaged in "development interventions" specifically in the areas of enterprise development and living standards improvement for "poor-under privileged communities".<sup>362</sup> More recently, the SFD's institutional evolution as an agency focused on SME promotion crystallized with the issuing of law 141/2004. The legislation designated to the fund a broad mandate entailing the setting up and implementation of policies targeting the SME sector as well as coordinating developmental efforts by donors and NGOs in this area.

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<sup>359</sup>Social Fund for Development, *Multi-Donor Review of the Social Fund for Development: Final Report*, viii.

<sup>360</sup>Based on 2004 figures, Ibid.

<sup>361</sup>Ibid.

<sup>362</sup>Social Fund for Development, and Government of Egypt, *Bridging Phase Annual Report 2001 and 2002* (Cairo: Social Fund for Development, 2000), 1-2.

## 2. SFD's Mission

Despite the fact that the SFD, like other SFs elsewhere in the developing world, was born as a temporary response to “transient” problems—in Egypt’s case unemployment generated by the Gulf crisis<sup>363</sup> and the adverse social effects of economic reform<sup>364</sup>—its mandate extended beyond the typical. Indeed, the SFD was envisioned to play a key role in “*developing a more appropriate targeting system for subsidies and social welfare payments and to establish permanent monitoring mechanisms to provide the government with the capability to evaluate, on a regular basis, the impacts of macroeconomic and social policy measures in vulnerable groups.*”<sup>365</sup> As a matter of fact, the fund sponsored a number of studies on restructuring Egypt’s old safety net in the mid-nineties. These included: *Application of Targeting Options to Egypt: Background Study for the Egyptian Social Welfare Program*,<sup>366</sup> in addition to studies on the spatial distribution of poverty<sup>367</sup>, as part of its efforts to develop a new monitoring system and a

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<sup>363</sup> The Gulf crisis affected workers’ remittances and an estimated 380,000 returned to Egypt in its wake.

<sup>364</sup> Jeremy Holland, “The Role and Process of Poverty Analysis in Social Funds: Implications for the Egypt Social Fund for Development,” *Centre for Development Studies, University of Wales Swansea* (1999).

<sup>365</sup> World Bank, *Egypt: Alleviating Poverty During Structural Adjustment, World Bank Country Study, 1991* (Washington, DC: The World Bank, 1991). xxvi. Italics added.

<sup>366</sup> Abla Abdel Latiff, *Application of Targeting Options to Egypt: Background Study for the Egyptian Social Welfare Program, Research Supported by the Social Fund for Development*.

<sup>367</sup> Fergany, *On the Impact of Economic Restructuring in Human Development and Proposed Strategies to Alleviate Poverty: The Case of Egypt*; The Social Fund for Development, *Towards Realizing the Role of Small and Medium Sized Enterprises in the Egyptian Economy Executive Summary* (Cairo: Information Decision Support Center, 2002); and Abla Abdel-Latif, *An Assessment of the Egyptian Social Fund for Development in the Light of the Bolivian Experience* (Cairo: CEFRS, 1993). Most of these studies were conducted under Hussein El Gammal’s tenure as the SFD’s managing director. Following the restructuring of the fund’s organizational structure, the IDP was eliminated and it ceased to commission studies on poverty in Egypt. During the course of



targeting mechanism for its programs. Nonetheless, the SFD's recommendations on refashioning the pre-existing safety net through the adoption of means-testing and targeting strategies to a large extent did not materialize.

Aside from the proposal to cancel "red ration cards," which provided partial rather than full subsidy to households, a measure that was implemented and affected a mere 2.5% of the population, the fund suggested more sweeping reform options aimed at overhauling the universal food subsidy system.<sup>368</sup> In order of perceived political feasibility, the proposed reform options were: the substitution of subsidies by food stamps, specifically for mal-nourished mothers and children,<sup>369</sup> the extension of higher direct cash transfers for the poor, and lastly the narrowing of the ration card subsidy system beneficiaries through means testing.<sup>370</sup> None of these policy proposals, however, materialized. Further, as elaborated in chapter III and chapter V, the SFD's attempts to conduct research into geographical distribution of poverty, were met by fierce resistance from agencies within the state and quickly shelved by the World Bank and the SFD in the mid-nineties.<sup>371</sup>

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fieldwork, the fund's library and studies were not made accessible to the researcher. However, I was able to access some by contacting individual authors and consultants, who had done work for the SFD in earlier years.

<sup>368</sup> Based on 1991/1992 figures on number of ration cards and beneficiaries. See Latiff, A. A. and A. Kamel (1993). *Application of Targeting Options to Egypt: Background Study for the Egyptian Social Welfare Program*, Research Supported by the Social Fund for Development. Cairo, CEFRS, 45.

<sup>369</sup> These were envisioned to be potentially distributed through the public health care centers.

<sup>370</sup> Abla Abdel Latiff, *Application of Targeting Options to Egypt: Background Study for the Egyptian Social Welfare Program*, Research Supported by the Social Fund for Development.

<sup>371</sup> Ex-Managing Director of the Social Fund for Development Hussein El Gammal, *Interview by Author* (Alexandria, Egypt: August 7, 2007).

I argue that the evolution of the SFD's mission and its operations have been closely intertwined with three hidden patterns of retrenchment, all of which benefited limited income groups. In light of state resistance to the initial SFD mission, the first pattern of retrenchment is the *dilution* or reduction of the subsidy benefits *without* the restructuring of the quasi-universal system. As elaborated in chapter IV, this form of institutional change has allowed the state to both retain its legitimacy and avoid the question of excluding the middle classes through the adoption of targeted mechanisms for subsidy provision. The second pattern is *conversion*, or the diversion of income-generation programs to new beneficiaries, who can furnish a state employee salary as loan collateral. This process unfolded in the case of program, which partnered with the SFD in its implementation of its micro-enterprise promotion initiatives, such as the PFP. The beneficiaries of this conversion process were limited income groups. Lastly, the third pattern of retrenchment is *layering*, or the establishment of small business promotion as a new social protection institutional track under the SFD. Rather than catering to the immediate consumption of the poor, the SFD extended production-oriented programs, as a long-term poverty alleviation strategy. Further, the bulk of its operations focused on SME promotion efforts and targeted state-linked elements of the middle classes, or unemployed university graduates and civil servants, who can meet the government salary collateral requirement. While this constituency has experienced a decline in its living standard, with the contraction of the real economy in the wake of ERSAP, they are by and large non-poor. Indeed, studies indicate that only roughly 33 percent of the urban poor and 17 percent of the rural poor are government employed.<sup>372</sup>

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<sup>372</sup> Naglaa El-Ehwany and Heba El-Laithy, "Poverty, Employment and Policy-Making in

To summarize, Egypt's welfare regime has been undergoing a process of hidden retrenchment since the early 1990s, in which the SFD has played a key role. Indeed, resistance to the fund's strategic goal to restructure the food subsidy system, through developing new targeting mechanisms, has led to its scaling back rather than overhaul, a pattern I label as "dilution" of benefits. Further, the fund's partnership with pre-existing income generation programs, such as the PFP, has led to their undeclared conversion to new beneficiaries. Lastly, institutional layering through the establishment of the parallel institutional track of productivist welfare under the umbrella of the SFD targeting the lower middle and middle classes is a third aspect of the retrenchment process. What are the underlying dynamics driving the hidden retrenchment process? The next chapters explore the role of international and domestic factors in shaping hidden retrenchment.

#### ***IV. Conclusion***

The origins of Egypt's welfare regime date back to the 1930s, a period in which the struggle between nationalist forces and the colonial state as well as external ideological influences, shaped attempts to institutionalize the state's social role. Two critical junctures have marked the development of Egypt's insurance-based egalitarian regime: the 1952 coup, which definitively oriented the state policies towards an insurance-based system, as well as hidden retrenchment following the economic crisis in the late 1980s, and the adoption of the free market-based development model in the 1990s. Three factors shaped the first conjuncture: the state's interests in establishing a social basis of power among the middle classes, the etatist development model and Arab

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Egypt " in *Towards Decent Work in North Africa* (International Labour Organization, 2001).

socialist ideology. The next three chapters will attempt to unpack the dynamics driving the second juncture in the welfare regime's development.

## Chapter III

### External Influences on Retrenchment: Globalization, Donors and Ideas

This chapter will explore the extent to which external influences are responsible for sustaining the momentum behind the retrenchment process; and assess the relevance of donor preferences and the internationally dominant neoliberal paradigm for explaining *how* the process of retrenchment has proceeded. The discussion revolves around two main axes: one is developments in Egypt's major old social protection mechanisms, or the social security and subsidy systems, during the neoliberal era; and the other more specific axis is the SFD. Driven by donor momentum, the latter was introduced during the neoliberal era, and operates according to a productivist logic of promoting entrepreneurship as a long-term poverty alleviation mechanism. I argue that, although the influence of the neoliberal discourse is evident by the establishment of micro-and small business finance as a new social protection institution, and the decline in allocations for the food subsidy system, overall, external dynamics have not played a vital role in welfare regime restructuring.

The following starts by outlining the nature of Egypt's economic crisis in the late 1980s and the neo-liberal reform agenda in order to set the background for the chapter's analysis of external dynamics influencing welfare retrenchment. Section II demonstrates that, contrary to the early expectations of the globalization literature, structural constraints from the global economy have been relatively weak in the Egyptian case. They do not account for the momentum behind the retrenchment process. Section three

explores the influence of donors on patterns of retrenchment and social protection policymaking, while in section four, the discussion moves on to analyzing the role of internationally dominant ideas. My contention is that donor influence does not explain how patterns of welfare regime restructuring unfolded or the dynamics sustaining the retrenchment process. The dilution of the universal food subsidy system, the expansion of pensions, continued marginalization of cash transfers, as well as *de facto* incorporation of the SFD into the state structure as an additional bureaucratic layer—all are patterns of welfare regime restructuring at odds with donor preferences. True, the initial momentum behind restructuring was donor driven, while the state's shrinking expenditures on subsidies during the period 1996-2002, as well as new social protection policies, partially reflect the influence of neoliberal ideology. Policy changes in these areas, nonetheless, continue to significantly diverge from neoliberal tenets, which, as elaborated in chapter IV, points to the relevance of regime interests and the prevailing moral economy to understanding hidden retrenchment processes in the Egyptian context.

### ***I. Crisis and Neoliberal Reforms***

Hidden retrenchment in Egypt occurred against the backdrop of a longstanding accumulation crisis, which intensified in the late 1980s. The country's annual GNP growth rate sharply fell from an average 7.5 percent during the 1975-82 period, to an average 1.9 percent during the years between 1987 and 1989.<sup>373</sup> Further, standards of living deteriorated significantly, as population growth continued at about 2.4 percent per year.<sup>374</sup> In fact, the difficulties facing the etatist development model date back to the

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<sup>373</sup> Weiss and Wurzel, *The Economics and Politics of Transition to an Open Market Economy Egypt*, 32.

<sup>374</sup> Ibid.

saving crisis of the late 1960s. According to Waterbury, deepening industrialization efforts would have required the extraction of latent economic surplus, by generating high rates of return and reinvesting profits in existing public enterprises, which the regime was only partially successful at achieving.<sup>375</sup> Further, Nasser was “unwilling to impose the economic sacrifices that the savings crisis demanded”.<sup>376</sup> These politically risky sacrifices would have entailed, “extending nationalizations further down into middle and lower-middle class assets by increasing forced savings extracted from fixed-salary employees, and by more manipulation of agricultural prices to favor public revenues at the expense of the peasants.”<sup>377</sup> The result was an accumulation crisis and an increased dependence on external sources of foreign exchange from: worker migration, tourist receipt, foreign aid, Suez Canal receipts, and oil export revenues.

In the late 1980s, the etatist system was largely maintained by foreign borrowing.<sup>378</sup> The country emerged as “one of the world’s major debtor nations, with over \$US 38 billion in foreign obligations...and annual debt service charges in excess of \$US 4 billion (i.e, as much as or more than earnings from the export of oil).”<sup>379</sup> Further, the large public sector survived “by overdrafts on public sector banks and the printing of money.”<sup>380</sup> By the end of the decade, inflation was running at around 20 percent<sup>381</sup> and

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<sup>375</sup> Waterbury, *The Egypt of Nasser and Sadat: The Political Economy of Two Regimes*, 81.

<sup>376</sup> Ibid., 428.

<sup>377</sup> Ibid., 429.

<sup>378</sup> Egypt benefited from the oil boom of the 1970s not only as an exporter of oil and migrant workers but also by receiving higher receipts from the Suez Canal. Nonetheless, like other developing countries it was hit by the financial crisis of the 1980s because it had borrowed recycled “petro-dollars” from foreign banks.

<sup>379</sup> Richards and Waterbury, *A Political Economy of the Middle East*, 219.

<sup>380</sup> Ibid., 119.

on the eve of neoliberal reforms, in 1991, the budget deficit level stood at 17.7 percent of GDP.<sup>382</sup>

Egypt adopted a series of neoliberal reform steps over the period 1991-1998. Between 1991 and 1993, the state enacted macroeconomic stabilization measures entailing fiscal reforms to cut the budget deficit as well as financial sector and currency reforms, aimed at unifying the foreign exchange markets and reducing inflation levels. On the welfare front, as elaborated in this chapter, the reforms also included the introduction of the Social Fund for Development. As a result of the adoption of macroeconomic reforms, the budget deficit fell from 17.7 in 1991 to about 0.8 percent of the GDP in 1997.<sup>383</sup>

Following the successful completion of the first wave of reforms in 1993, a new three-year Extended Fund Facility focusing on structural reforms was set up but quickly ran into problems due to the government's resistance to a 20-30 percent currency devaluation demand by the IMF.<sup>384</sup> "There was an extended period of protracted conflict during which it is likely the US State Department (with its eye on geostrategic stability) applied pressure to the IMF to dilute its preoccupation with devaluation and concentrate more on structural reform."<sup>385</sup> Indeed, the new two years standby agreement signed in 1996 did not include currency devaluation but instead emphasized privatization, private

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<sup>381</sup> Weiss and Wurzel, *The Economics and Politics of Transition to an Open Market Economy Egypt*, 32.

<sup>382</sup> Ibid.

<sup>383</sup> Bush, *Economic Crisis and the Politics of Reform in Egypt*; Richards and Waterbury, *A Political Economy of the Middle East*.

<sup>384</sup> The slow growth rate averaging around 5%, the government's resistance to currency devaluation and the slow paced privatization program, however, remained contentious areas of reform and sources of tension with the IMF.

<sup>385</sup> Bush, *Economic Crisis and the Politics of Reform in Egypt*, 39.



sector development as well as cutting the budget deficit, through price liberalization. IMF publications from the period considered Egypt in the 1990s “a remarkable success story”<sup>386</sup> and referred to its solid macro-economic performance as grounds for the country’s decision not to renew its agreement after 1998.

Despite falling into economic recession during the early and late 2000s following sharp declines in sources of foreign exchange, the Government of Egypt (GOE) has avoided signing further standby agreements with the IMF. In response to external shocks at the turn of the century, the state implemented neoliberal reform steps including currency devaluation over the period 1998-2004 and anti-inflationary measures; thereby leading to further contraction of the real economy.<sup>387</sup> The 2008 global financial crisis has, however, recently triggered the relaxing of neo-liberal monetary policies. Along the lines of the OECD the GOE slashed interest rates, enacted a fiscal stimulus package valued at L.E 15 billion, and expanded public investments.<sup>388</sup> To what extent have external dynamics shaped the country’s welfare retrenchment process?

## ***II. Structural Constraints***

Growing convergence among developing countries towards a minimal welfare regime has been linked to globalization and their deeper integration into the world economy. This is the case, because “the reduction of transnational barriers to economic exchange forces states to revoke long standing social contracts that protect their citizens

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<sup>386</sup> Howard Handy, *Egypt: Beyond Stabilization, toward a Dynamic Market Economy* (Washington, DC: International Monetary Fund, 1998).

<sup>387</sup> Alya El-Mahdy, *Interview by Author* (Cairo, Egypt: November 15, 2006).

<sup>388</sup> African Union Commission, and United Nations Economic Commission for Africa, "The Global Financial Crisis: Impact, Responses and Way Forward" *Report of the Committee of Experts of the 2nd Joint Annual Meetings of the AU Conference of Ministers of Economy and Finance and ECA Conference of Ministers of Finance, Planning and Economic Development* (Cairo, 2009).

from the ruthlessness of free markets.”<sup>389</sup> Although the race to the bottom thesis has been widely criticized in the case of advanced OECD countries, in light of revisionist analyses emphasizing the role of domestic institutions and compensation effects such as voter pressures preventing governments from repealing popular forms of social protection<sup>390</sup>, the argument has not been entirely discredited in the case of developing countries.<sup>391</sup> Indeed, mixed empirical evidence from quantitative studies has led to markedly different conclusions regarding the direction of change in the South. In an effort to better capture the relationship between globalization and social expenditure by developing states recent studies have drawn distinctions among influences emanating from the global economy (i.e. trade openness, capital market liberalization, external debts) as well as from regime types.<sup>392</sup>

This section explores the relationship between four sets of structural dynamics emanating from the global economy, and the changing nature of Egypt’s welfare regime. The structural dynamics are degrees of trade and capital market liberalization, which are common predictors for globalization’s impact, as well as levels of external rents and

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<sup>389</sup> Daniel Drezner, "Globalization and Policy Convergence," *International Studies Review* 3, no. 1 (2001):56.

<sup>390</sup> Pierson, "The Welfare State at Century's End;" Swank, *Global Capital, Political Institutions, and Policy Change in Developed Welfare States*; Garrett, "Global Markets and National Politics: Collision Course or Virtuous Circle?"

<sup>391</sup> See Bob Deacon, *Global Social Policy & Governance* (Los Angeles: SAGE, 2007); Rudra, "Globalization and the Decline of the Welfare State in Less-Developed Countries;" Lyana Mosley, "Globalization and the State: Still Room to Move?" *New Political Economy* 10, no. 3 (2005); Robert R. Kaufman and Alex. Segura-Ubiergo, "Globalization, Domestic Politics, and Social Spending in Latin America: A Time-Series Cross-Section Analysis, 1973-97," *World Politics* 53, no. 4 (2001).

<sup>392</sup> See Rudra, "Welfare States in Developing Countries: Unique or Universal?"

volume of domestic debt, which are particularly relevant to the rentier economies<sup>393</sup> of the Middle East. According to the general and regional literature, these variables are appropriate indicators for external structural constraints on social policymaking.

The shedding of protectionist measures upholding the welfare state and convergence around residual social protection designed to stimulate an “active society” have been linked to integration into the world economy. According to the dominant globalization narrative, greater openness to trade and capital flows forces “convergence” toward conservative fiscal policies.<sup>394</sup> More specifically, greater reliance on exports and high capital mobility constrain the ability of governments to levy taxes, which in turn translates into deteriorating social expenditure levels.<sup>395</sup> Further, liberalized financial markets have resulted in a “deflationary bias in macroeconomic policy,” as states have sought to maintain credibility in financial markets through adopting “high interest rates, tight monetary policies and fiscal restraint.”<sup>396</sup>

Egypt’s trade flows record, since the early eighties, reveals a clear trend towards less openness and lower integration into the world economy. Indeed, the ratio of merchandise trade to the GDP peaked at 83 percent in 1988, dramatically fell to 32 percent in 1991, and gradually further declined over the 1990s to reach 17 percent in

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<sup>393</sup> I use the term rentier state to refer to states that significantly rely on external sources of revenue, like oil remittances, aid and tourism flows, rather than domestic production and taxes. Egypt is considered semi-rentier in the literature since it is not a major oil exporter, nonetheless, its economy relies on remittances from workers in the Gulf, foreign aid, revenue from the Suez Canal and tourism. On rentier states see, Giacomo Luciani, *The Arab State* (London: Routledge, 1990).

<sup>394</sup> Drezner, "Globalization and Policy Convergence."

<sup>395</sup> Nita Rudra and Stephan Haggard, "Globalization, Democracy and Effective Welfare Spending in the Developed World," *Comparative Political Studies* 38, no. 9 (2005).

<sup>396</sup> Diane Elson, "Social Policy and Macroeconomic Performance," in *Social Policy in a Development Context*, ed. P. Thandika Mkandawire (New York: Palgrave Macmillan, 2004), 67.

2001.<sup>397</sup> Further, despite the country's trade liberalization policies, its profile is significantly low by regional standards. In 2006, while the trade to GDP ratio stood at 32 percent in Egypt, it amounted to 118 percent in Jordan, 55 percent in Morocco and 87 percent in Tunisia.<sup>398</sup>

Similarly, Egypt's exposure to international capital movement declined over the period 1985-2000 and has been on an upward trend only in more recent years. While the average ratio of Foreign Direct Investment (FDI) to the GDP was 3 percent between 1985-1989, that ratio significantly dropped to 0.8 percent during the first half of the nineties and slightly increased to 1.1 percent during the second half of the decade.<sup>399</sup> Indeed, the onset of hidden retrenchment in the nineties coincided with declining net FDI inflows from \$US1250 million in 1988 to \$US493 million in 1993.<sup>400</sup> Although FDI levels peaked at \$US 1256 million in 1994, they dropped by more than 50 percent in 1995 and gradually recovered to reach \$US 1235 million in 2000. By regional standards, however, capital flows to Egypt's economy were relatively high between 1985-2000. Average ratio of FDI inflows to the GDP was 1.8 percent in Egypt, compared to 1.5 in Jordan, 0.6 in Morocco, 1.8 in Tunisia and 0.4 in Turkey.<sup>401</sup> With \$US 10,043 million in FDI inflows in 2006, Egypt's share of FDI flows seems modest relative to China whose lion's share of FDI was estimated at \$US 78, 095 million during the same year. Nevertheless, in recent years, inflows as a ratio to the GDP have been rising, averaging

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<sup>397</sup> Data is derived from the World Bank, World Development Indicators 2007.  
<http://web.worldbank.org/WBSITE/EXTERNAL/DATASTATISTICS/0,,contentMDK:21298138~pagePK:64133150~piPK:64133175~theSitePK:239419,00.html>.

<sup>398</sup> Ibid.

<sup>399</sup> International Monetary Fund, *International Financial Statistics Yearbook and Country Notes* (Washington, DC: International Monetary Fund), various years.

<sup>400</sup> Ibid.

<sup>401</sup> Calculated from Ibid.

3.4 percent between 2000-2007 compared to 2.8 in Brazil, 2.6 in China and 1.2 in India.<sup>402</sup>

As for portfolio flows, which are commonly considered a potentially serious globalization risk to economic stability, they have been erratic. According to Sullivan, “there was just \$5 million in 1981, \$20 million in 1985, and back down to \$2 million in 1989. In 1990 there were just \$15 million and \$6 million in 1992.”<sup>403</sup> Although foreign portfolio investment reached \$1.5 billion in 1996-1997<sup>404</sup> and peaked at \$US 2.8 billion in 2005-06, their net value was negative between 2001-2003.<sup>405</sup> In terms of the relative risk posed by foreign portfolio investment to the economy, their average ratio to the GDP was 6 percent in 1985, 5 percent in 1989 and averaged only 4.5 percent during the period 1992-1998. In other words, hidden retrenchment has coincided with *less* exposure over time to risks from foreign portfolio flows.

Another structural dynamic highlighted by the literature is the impact of declining access to rents on political economies in the region. To be more specific, analysts tend to link patterns of falling rents, particularly oil prices, to the fiscal crisis of the state and the decisions to adopt neoliberal reforms in the early nineties.<sup>406</sup> In the case of Egypt, overall external sources of financing from-- international trade taxes, the Suez Canal, oil exports, grants, foreign financing and central bank--dropped from 35.3 percent of public

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<sup>402</sup> In 2006, FDI inflows were \$US18,782 million in Brazil or 1.8 percent of its GDP, \$US 17,453 million in India or 1.9 percent of its GDP and \$US 78, 095 million or 2.9 percent China’s GDP. Calculated from Ibid.

<sup>403</sup> Paul Sullivan, "Globalization: Trade and Investment in Egypt, Jordan and Syria since 1980," *Arab Studies Quarterly* 21, no. 3 (1999), 40.

<sup>404</sup> Nagwa Samak and Omnei Helmy, "Foreign Portfolio Equity Investment in Egypt: An Analytical Overview," 12.

<sup>405</sup> Economist Intelligence Unit, "Egypt Commerce Report," (2007).

<sup>406</sup> Richards and Waterbury, *A Political Economy of the Middle East*.

expenditures in 1980-1985 to 27.41 percent between 1986-1990.<sup>407</sup> The sharpest decrease in rents was in the proceeds from the oil industry, which dropped from 12.1 percent of public expenditure to 5.14 over the 1980s.<sup>408</sup> Nonetheless, the implementation of reforms since 1991 coincided with an increase in foreign financing. According to Richter, external rents rose to 46.63 percent of total revenues between 1991-1995<sup>409</sup>, the period witnessing the onset of hidden retrenchment patterns. Although levels of rents decreased during the late nineties and early two thousands to reach 33.79 percent in 2001 and 31.42 percent in 2004<sup>410</sup>, they have remained a significant portion of the state's budget. Thus, not only have external debt levels declined since the early nineties, but also the inflow of rents such as workers remittances and tourist receipts have made it possible for the state to finance its budget deficits domestically.<sup>411</sup> Indeed, the budget sector's net domestic debt levels climbed from 47.2 percent of the GDP in 1996-1997 to 54.3 in 2000-2001 and 65.1 in 2004-2005.<sup>412</sup> Whereas debt levels have recently declined from a high of 72 percent of the GDP in 2006-2007 to 64.2 percent in 2007-2008 and 53.4 percent in 2008-2009,<sup>413</sup> they are projected to increase in 2009-2010.<sup>414</sup>

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<sup>407</sup> Thomas Richter, "The Political Economy of Regime Maintenance in Egypt: Linking External Sources and Domestic Legitimation," in *Debating Arab Authoritarianism: Dynamics and Durability in Nondemocratic Regimes*, ed. Oliver Schlumberger (Stanford: Stanford University Press, 2007), 190.

<sup>408</sup> Ibid.

<sup>409</sup> Ibid.

<sup>410</sup> Ibid.

<sup>411</sup> Ibid., 188.

<sup>412</sup> National Bank of Egypt, *Economic Newsletter* 59 No 3 (2006): 20, 25.

<sup>413</sup> Ministry of Finance, *Egypt Economic Review Monthly Report* (Cairo: Ministry of Finance, 2009). Net domestic budget sector debt refers to the outstanding stocks due on Central Administration, Local Governments, and Public Service Authorities minus deposits by these entities.

<sup>414</sup> Mohsen Abdel Razeq, "Budget Deficit Stabilizes at L.E 14.8 Billion and the Domestic Debt Increases by 85 Billion," *Al Masry Al Youm*, September 12, 2009.

In sum, structural constraints from the world economy are relatively weak in the case of Egypt. In fact, levels of international trade, capital and portfolio investment did not rise during the period marking the beginnings of systemic retrenchment, and the state did not face externally driven constraints on its budgetary allocations for social protection in the 1990s.

### ***III. The Role of Development Assistance***

Egypt's geo-strategic importance and alliance with the US have rendered it one of the biggest foreign aid recipient states worldwide. Egypt is the second biggest recipient of USAID funding after Israel and one of the top recipients of EU development assistance, with an estimated share of 5.5 percent of total EU aid in 1997-1998.<sup>415</sup> Donor financing is one of the main features of its political economy. In fact, the country's adoption of neoliberal reforms in 1991, following the breakdown of negotiations with the IMF in 1989 and the postponement of stabilization and structural adjustment reforms in the second half of the 1980s, could be largely attributed to external donor conditionality.<sup>416</sup> Debt relief by the Paris Club, in the wake of the Gulf War, was linked to the Egyptian government's reform performance on the basis of the IMF standby agreement and provided in three stages. "By front-loading the reforms, international donors hoped to change the payoffs facing the government; if they failed to reform, they would not enjoy subsequent tranches of debt relief."<sup>417</sup> The role of the US administration

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<sup>415</sup> Commission of the European Communities (COM), Annual Report of the MEDA Program, 1999 (Brussels: COM, 2000), 6. Cited in Fatma H Sayed, "Security, Donors' Interests and Education Policymaking in Egypt," *Mediterranean Quarterly* 16 no. 2 (Spring 2005).

<sup>416</sup> For more on conditionality see Kahler, "External Influence, Conditionality and the Politics of Adjustment."

<sup>417</sup> Richards and Waterbury, *A Political Economy of the Middle East*.

in guaranteeing the IMF's acceptance of Egypt's weak letter of intent and resolving disputes between the two sides has also been considered instrumental in the implementation of the 1991 stand-by agreement.<sup>418</sup>

The retrenchment of Egypt's welfare state unfolded in the context of the Economic Reform and Structural Adjustment Programs (ERSAPs), which spanned the years between 1991 and 1998. As highlighted in section I, the country signed two standby agreements with the IMF. While the 1991 agreement sought to promote macroeconomic stabilization through fiscal, financial sector and currency reforms, aimed at cutting the budget deficit, unifying foreign exchange markets as well as reducing inflation levels, the 1996 package focused on restructuring the economy through privatization, private sector development as well as price liberalization. But to what extent have donors influenced the retrenchment process?

In order to assess the extent to which the country's hidden welfare retrenchment patterns could be attributed to development assistance, this section will proceed to analyze social policy reforms in the neoliberal era, the SFD's set-up and structure, the evolution of the fund's mission and lastly its funding sources. Overall, donor influence over the retrenchment process has been limited. Although the relative weights of the various components of Egypt's welfare regime shifted since 1991 and the addition of the production-oriented SFD strengthened the position of the middle-and lower-middle classes and ushered in changes in access rules to pre-existing income generation schemes, there was no explicit overhaul of institutions. Contrary to donor recommendations, hidden retrenchment in Egypt did not entail the introduction of viable cash transfer

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<sup>418</sup> Bessma Momani, *IMF--Egyptian Debt Negotiations* (Cairo: American University in Cairo Press, 2005), 26.



schemes, privatization of the pension program or phasing out of subsidies. As for the SFD, although donors influenced its establishment through a mix of conditionality and incentives, nonetheless their role in that respect also needs to be kept in perspective. While the SFD was officially established outside line ministries and the state's budget, the institutional "autonomy" of the fund was, and continues to be, a major point of contention between the Egyptian state and its donors. Further, the evolution of the SFD's mission and its dwindling foreign financing indicate the weak influence of donor aid dynamics.

#### **A. The Old Social Protection Mechanisms**

As outlined in chapter II, up to the late 1980s Egypt had an egalitarian welfare regime centered on social insurance and buttressed by a large subsidy program. The question of subsidy reform continues to be a politically sensitive issue in Egypt after the infamous food riots of 1977. The riots, which erupted in response to sharp price increases as part of an IMF package of reforms, "left a legacy of government caution not only toward food policy reform, but economic reform more broadly."<sup>419</sup> Within development circles, Egypt's subsidy system has received considerable attention as one of the most costly and inefficient programs worldwide.<sup>420</sup> Food subsidy restructuring was included as a reform component of the 1991 IMF agreement aiming to reduce the budget deficit and promote macroeconomic stability. Criticized as distortionist, fiscally unsustainable and constraining long-term growth, universal subsidies were to be geographically targeted and restructured to exclude non-poor groups while means tested

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<sup>419</sup> Tammi Gunter, "The Political Economy of Food Subsidy Reform in Egypt," *Food Consumption and Nutrition Division Discussion Paper 77* (1999): 18.

<sup>420</sup> World Bank, *World Development Report 1990: [Poverty]* (New York: Published for the World Bank [by] Oxford University Press, 1990), 92-93.

cash transfer schemes would be expanded. According to a 1991 World Bank study on *Alleviating Poverty During Structural Adjustment*, Egypt was encouraged to scale back its ration cards, which covered over 90 percent of the population in the late 1980s, to experiment with geographical targeting of subsidies and to eliminate “subsidization through the distribution cooperatives which have been found to benefit mainly middle and upper income groups.”<sup>421</sup>

In the wake of the 1991 reforms, the GOE removed meat, chicken, fish and other food items mostly consumed by high-income groups from the subsidy program. Egypt’s subsidy program, thus, was diluted to cover sugar and oil through ration cards, while universal subsidies covered bread and flour. Aside from reducing the items covered, the number of people on the ration card system was also cut to 88 percent of the population by the early 1990s.<sup>422</sup> Although distribution cooperatives were scaled back, contrary to IMF and World Bank recommendations the state did not introduce a new targeting mechanism. Instead, the state sought to reduce subsidies in hidden and gradual patterns whereby loaf sizes were decreased, extraction rates modified and subsidized bread types were gradually replaced by more expensive versions. During this period, expenditure on subsidies as a ratio to the GDP declined from 4.7 percent in 1990 to 2.5 in 1993. However, social spending<sup>423</sup> on the whole increased from 11 percent in 1990 to 14.2 percent of the GDP in 1993. In other words, social expenditures during the

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<sup>421</sup>World Bank, *Egypt: Alleviating Poverty During Structural Adjustment, World Bank Country Study, 1991* (Washington, DC: World Bank, 1991), XXV.

<sup>422</sup> Since the ration card subsidy program was recently expanded to cover an additional 15 million individuals, I have labeled it a universal program. As highlighted in chapter II, the reforms entailed eliminating the higher income red cards category and stopping registration of new births.

<sup>423</sup> The definition used here builds on the OECD’s definition of social expenditure, which encompasses spending on social security, social assistance, health and housing but also includes education spending given the high illiteracy levels in Egypt.

implementation of neoliberal reforms did not decline but were restructured in favor of pensions, housing, health and education, whose shares in budget allocations increased.

Looking at the period following the implementation of economic reforms, similar trends of social expenditure are evident. While social spending as a ratio to the GDP increased to reach 19.3 percent in 2006 versus 15.4 percent in 1996,<sup>424</sup> expenditure levels on subsidies fell to a range between 1.5 and 1.7 percent of the GDP over the period between 1996-2002. The continued decline in subsidy expenditure levels, however, cannot be attributed to donor pressure but rather point to the influence of neoliberal ideas as will be elaborated in section III. By 1996, according to Tammi Gunter, “the necessity of removing food subsidies declined in importance”, and the second IMF standby agreement did not mention subsidy reform.<sup>425</sup> Donors, including the USAID, by the mid-1990s were not willing to pressure the GOE to cut back on subsidies in light of the overall improving performance of the economy.<sup>426</sup> According to USAID officials, there was a keen interest to encourage Egypt to set up a targeted food subsidy system but the idea lost momentum since it was deemed politically unacceptable.<sup>427</sup> As for the World Bank, it has continued to recommend “improvements” in Egypt’s safety net through phasing out subsidies and the adoption of conditional cash transfer schemes.<sup>428</sup> However,

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<sup>424</sup> This coincided with a period of growth in Egypt’s economy between 1995 and 1998 peaking at 6% in 1997-1998. Between 1998-2003 growth slowed to reach 3% in 2003. Since 2004, GDP growth levels have recovered to exceed 6% in 2005. See kheir-El-Din and El-Laithy, "An Assessment of Growth, Distribution and Poverty in Egypt: 1990/91-2004/05."

<sup>425</sup> Tammi Gunter, "The Political Economy of Food Subsidy Reform in Egypt " *Food Consumption and Nutrition Division Discussion Paper 77* (1999):18.

<sup>426</sup> Ibid., 33-34.

<sup>427</sup> Ibid., 34

<sup>428</sup> World Bank, *Egypt toward a More Effective Social Policy: Subsidies and Social Safety Net* (Washington, DC: World Bank, 2005).

with a declining annual lending commitment to Egypt, due to the country's graduation from the soft lending branch of the IDA to the commercial terms of regular loans under IBRD,<sup>429</sup> and the country's continued access to grants as well as low interest loans from other donors, the leverage of the Bank has declined in recent years.

Furthermore, the fact that recent spending on subsidies bounced back to 2.9 percent in 2005 and 5.7 percent in 2006 points to the state's drive to maintain its expected role under the prevailing moral economy, as discussed in chapter IV. In response to increases in food prices internationally in 2007-2008, price controls have been reintroduced on several food items and the number of subsidized items has increased. Further, access to the subsidy has expanded, through allowing registration for new ration cards in 2007 for the first time since 1989. Although the advent of the Nazif government to power ushered in organizational restructuring in line with donor recommendations, such as canceling the Ministry of Supply and transferring responsibility for subsidies to the Ministry of Social Solidarity, overall the institutionalized structure of Egypt's welfare regime has been maintained. Subsidies constituted the biggest social expenditure item in the state's 2006-2007 budget while proposals aimed at restructuring the subsidies and introducing cash transfer schemes did not gain momentum.

As for pensions, with the exception of introducing voluntary early retirement schemes, the system has remained unchanged during the ERSAPs of 1991 and 1996. Since 2005, however, there have been signs of change as supervision of insurance schemes was transferred to the Ministry of Finance. Further, the World Bank has been

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<sup>429</sup> IDA provides assistance to countries with per capita income of \$785 or less (constant 1996 dollars), while Egypt's per capita income is estimated at \$1,060. See Ibid., 35.

involved in drafting privatization reform of Egypt's pension schemes.<sup>430</sup> Indeed, a controversial proposed reform of the pension schemes, based on World Bank recommendations, was recently submitted to the People's Council<sup>431</sup> but it faced opposition and was not passed. The proposed system lowered employee contributions from 40 to 17 percent of the salary and combined private and public management. Under the proposed legislation, workers would get a choice of depositing fixed monthly installments in a credit account and/ or pay different sums as they went along in a current pension account and/ or create a privately managed investment fund.

Proponents of reform have charged that the current system is financially unsustainable, with growing contributions by the exchequer rising from 2.7 to 6.9 percent between 1986 and 1998<sup>432</sup> and outstanding public debt to the pension funds increasing by almost 62 percent between 2000-01 and 2004-05.<sup>433</sup> From this perspective, the deficit problem represented by the gap between contributions at 48 percent of the GDP and expected future obligations to pensioners at 141 percent of the GDP in 2004-05,<sup>434</sup> is due to a number of factors. These include: annual contributions by the state to combat inflation, which increased by 150 percent between 1999 and 2004; a drain of resources by non-contributory pension schemes; and inadequate investment policies by the National

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<sup>430</sup> Robalino, Whitehouse, and World Bank, *Pensions in the Middle East and North Africa: Time for Change*.

<sup>431</sup> Reem Leila, "Pensions for All," *Al Ahram Weekly*, January 11-17, 2007.

<sup>432</sup> Mohamed A. Maait, "The Effects of Privatization and Liberalization of the Economy on the Actuarial Soundness of the Egyptian Funded and Defined Benefits Social Security Scheme."

<sup>433</sup> Omneia Helmy, "The New Pension System in Egypt," *Egyptian Center for Economic Studies Working Paper* 116 (December 2007): 8.

<sup>434</sup> Ibid.

Investment Bank, where the reserves of the system are invested.<sup>435</sup> Defenders of the state-managed pension system, however, have challenged this perspective arguing that the pension funds have accumulated sizable surpluses. Further, they have questioned the viability of proposed settlements of the government's debt to pension funds and have pointed to the risks retirees may face under the new system.<sup>436</sup>

Analyzing the state budget expenditure patterns reveals that pensions have consistently increased between 1991 and 2005, contrary to the thrust of World Bank recommendations.<sup>437</sup> Public expenditure on pensions rose from 0.55 percent of the GDP in 1990 to 1.25 in 1993, and to 1.9 percent at the end of the decade.<sup>438</sup> Its share of social spending rapidly rose from 5 percent in 1990 to reach 15 percent in 2005 when it became the second biggest component in social expenditure after education.<sup>439</sup> While rising expenditure on pensions could be interpreted as a function of population trends and early retirement, analysts point to the state's periodic raising of pensions at rates higher than prevailing inflation levels as evidence of the state's commitment to maintaining the living standards of this constituency.<sup>440</sup> During the period between 2000 and 2004, while subsidies stabilized at 1.9 percent of the GDP, there was a gradual distributional shift in

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<sup>435</sup> The NIB lends to the public treasury and pension funds have financed 86% of public investments at 12% interest. In 2004-05 debt to pension funds amounted to 52% of total domestic debt by the state. Ibid., 10.

<sup>436</sup> Attallah, "Pension Funds to Where?"

<sup>438</sup> Calculated by the author from International Monetary Fund, *International Financial Statistics Yearbook and Country Notes*.

<sup>439</sup> Ibid.

<sup>440</sup> Mohamed A. Maait, "The Effects of Privatization and Liberalization of the Economy on the Actuarial of the Egyptian Funded and Defined Benefits Social Security Scheme."

favor of pension payments for state employees.<sup>441</sup> Indeed, between 1999 and 2006, the government's contribution to pension funds further increased to 2.27 percent of the GDP on average versus 1.7 percent in 1998.<sup>442</sup> Aside from pension schemes, additional insurance payments through the public authority for social insurance for public enterprise employees averaged 0.89 percent of the GDP during the years 1999-2003.<sup>443</sup>

Despite several proposals to expand social assistance in recent years, the cash transfer component of Egypt's welfare regime has remained unchanged and increasingly marginalized in the state's budget. Among recently discussed proposals is the introduction of a non-contributory pension scheme for non-state employees over 65 providing 15 percent of the average wage level. The scheme was proposed as part of the previously discussed pension reforms legislation and did not materialize. Another high profile proposal is the adoption of conditional cash transfer schemes along the Brazilian and Mexican models.<sup>444</sup> Despite the fact the Ministry of Social Solidarity seemed to take serious steps in this direction in 2006 by introducing piloted programs and launching a new fieldwork initiative to map poverty at the household level, the proposals have faced

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<sup>441</sup> Calculated by the author from Majles El Shaab, *Report on Proposed State's Public Budget for the Financial Year 2004-05 and the Proposed Plan for Socio-Economic Development for 2004-05* (Cairo: Majles El Shaab, 2004); United Nations Development Programme, *Egypt Human Development Report: Choosing Our Future: Towards a New Social Contract* (Institute of National Planning and United Nations Development Programme, 2005); Ministry of Finance, *The State Public Budget 2005-06* (Cairo: Ministry of Finance, 2005).

<sup>442</sup> Calculated by the author from Ibid.

<sup>443</sup> Payments peaked at 8.5% of the GDP in 2004 on the eve of elections. This category covers pension payments for illness, injury, old age, bonuses, maternity leaves and unspecified social benefits.

<sup>444</sup> Sergei Soares et al., "Conditional Cash Transfers in Brazil, Chile and Mexico: Impacts Upon Inequality," *International Poverty Centre Working Paper* 35 (2007).

resistance.<sup>445</sup> As for public expenditure patterns on social assistance, they indicate the state's weakening commitment to allocate resources for the poor. In 1990, spending on cash transfers amounted to 1.6 percent of the GDP and 15 percent of total social spending.<sup>446</sup> By 2000, the cash transfers category was allocated a mere 0.18 percent of the GDP while its share of expenditure on social protection fell to only 1.2 percent.<sup>447</sup> The dramatic fall in cash transfer spending has continued in recent years as expenditure hit a low of 0.05 percent of the GDP in 2004.<sup>448</sup> The trend was only partially reversed in 2006 as spending was raised to 0.2 percent of the GDP among public concern over rising poverty levels in recent years.<sup>449</sup>

## **B. The SFD**

The introduction of the SFD, as a production-oriented, long-term poverty alleviation mechanism, was the only explicit organizational change in Egypt's welfare regime during the neoliberal era. The fund emerged as an important component of Egypt's social protection spending between 1993 and 1996, with disbursement levels averaging 0.34 percent of the GDP.<sup>450</sup> However, that figure fell to an average of 0.13 percent of the GDP during the period 1998-2004 and its spending amounted to only about 0.1 percent of total social spending by 2005.<sup>451</sup>

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<sup>445</sup> Hanaa Kheir El-Din, *Interview by Author*.

<sup>446</sup> Calculated by the author from International Monetary Fund, *International Financial Statistics Yearbook and Country Notes* various years.

<sup>447</sup> Ibid.

<sup>448</sup> Ibid.

<sup>449</sup> Ibid.

<sup>450</sup> Calculated by the author from Social Fund for Development, *Multi-Donor Review of the Social Fund for Development: Final Report*.

<sup>451</sup> Ibid.



### *1. Establishment and Structure*

The creation of the fund could appropriately be characterized as a response to financial incentives by donors. According to the ex-managing director, the setting up of the fund “was strongly recommended in order to help the socioeconomic reforms to go smoothly and based on evidence of similar experiences in countries that have gone through similar paths... it was not conditional in the sense if you don’t establish the SFD we will not give you money, it was put in a different way...it was like a carrot, if you establish the SFD we will help you in order to make it possible for you to implement the recommendations of economic reform without going through social upheaval or complaints from the general public.”<sup>452</sup> In other words, the momentum behind its set-up was largely external.

As a matter of fact, donor influence and conditionality over the SFD were evident during its early years of operation. For instance, the selection of the fund’s managing director was done by the UNDP subject to approval by the Government of Egypt. The slow start of the SFD, which was legally established in 1991 but did not start operation until 1993 due to resistance from within the state and political inexperience of its first managing director<sup>453</sup>, prompted donor conditionality.<sup>454</sup> In fact, donors pressed for the

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<sup>452</sup> Hussein El Gammal, *Interview by Author*.

<sup>453</sup> Interview with ex-official at the SFD, August 2007. The SFD’s first managing director was Mr. Hamed Mubarak, a relative of the president. Ilya Harik argued that the change of leadership was driven by the donors preference for hiring someone with no ties to the regime. My interviews indicate that the World Bank initially perceived Hamed Mubarak’s links as an asset for the SFD and his change was due to professional reasons. For a discussion of Harik’s version of events see, Ilya Harik, *Economic Policy Reform in Egypt* (Gainesville: University Press of Florida, 1997).

<sup>454</sup> Another incident of donor conditionality was in 1999, when proposed IDA credit for a third phase in SFD operations was initially conditioned on strengthening its financial and procurement management systems in a manner satisfactory to the donor. World Bank,

presentation of a business plan, administrative structure as well as appraisal and targeting mechanisms by April 1992 as a condition for continued financing. In preparation for the anticipated donor meeting in Brussels, the SFD's leadership was changed and Hussein El-Gammal came on board as its new managing director. The 10<sup>th</sup> of April 1992, according to El-Gammal, "was a key date for us, it was more or less an ultimatum. [Donors said] you either convince us this time or we withdraw the money. They had been fed up and said you either have hired someone and have taken serious steps or..."<sup>455</sup>

While the SFD's "autonomous" status outside line ministries is consistent with donor preferences, both its administrative structure as well as operational model reflect the state's strong hold. The SFD's establishment as an officially separate entity outside line ministries directly reporting to the President of the Republic was initially met by resistance from within the state. Although the authorities in Egypt perceived the launching of the SFD as a "very positive" step, "at the same time, what was troubling them was that the SFD was not managed by the government directly and that was the part the government was not very happy about."<sup>456</sup> Indeed, its official status as a parallel institution could be attributed to donor preference for bypassing the state bureaucracy through creating a more efficient and flexible institution with high technical capacity.

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*Project Appraisal Document on a Proposed Credit of SDR 36.9 Million to the Arab Republic of Egypt for a Third Social Fund for Development Project* (Washington, DC: World Bank, 1999).

<sup>455</sup> Hussein El Gammal, *Interview by Author*.

<sup>456</sup> Ibid. There is a relevant literature on Social Funds and their organizational model including: Laura Rawlings et al., *Evaluating Social Funds: A Cross-Country Analysis of Community Investments*, World Bank Regional and Sectoral Studies (Washington, DC: World Bank, 2004); Lynn S. Khadiagala, "Social Funds: Strengths, Weaknesses, and Conditions for Success," *PSP Discussion Paper Series*, no. 20840 (1995); Mukhmeet Bhatia, "Social Funds: A Review of Public Sector Management and Institutional Issues," *Social Protection Discussion Paper Series*, no. No.0508 (2005).

According to a 1996 World Bank report, the administration of the SFD outside the civil service and its clear lines of hierarchy contribute to its capacity. Nonetheless, a closer look at the SFD's structure and operations reveals a more complex picture.

In fact, four important patterns indicate the fund's *de facto* integration into the state apparatus and its limited institutional autonomy on the ground. First, since the SFD has predominantly implemented its projects through state agencies that are also represented on its board of directors, the fund's actual degree of autonomy is questionable. Indeed, the SFD's board of directors, which serves as its technical steering committee, is chaired by the PM and its membership is split between select government ministers as well as businessmen. Rather than constituting an autonomous parallel entity, the SFD is effectively a new bureaucratic layer that has been integrated with pre-existing institutions, at both the management and implementation levels, a pattern that has facilitated the hidden conversion of pre-existing income generation programs and was opposed by donors. Second, the director's "autonomous" managerial powers have been weakly institutionalized and severely curtailed by state officials on some occasions. Indeed, while the managing director was initially mandated to approve sub-projects valued at less than \$500,000, a power struggle between El-Gammal and the then PM Atef Ebeed curtailed the former's powers and led to the virtual freezing of the fund's activities for nearly two years. "The institution's independence was compromised as disbursements exceeding L.E 50,000 (US \$12,500) had been made subject to Prime Ministerial approval and its effectiveness was further put at risk by the departure of the

larger share of the senior management team.”<sup>457</sup> In addition, the SFD’s financial autonomy has been suspended with its formal inclusion in the state budget since 2002. Third, as elaborated in chapter IV, the SFD’s growing links to the ruling NDP are glaring evidence of its lack of institutional independence. Fourth, contrary to donor expectations of technical capacity and technocratic staffing, high ranking positions at the SFD have been routinely designated to retired army officers and regime loyalists.<sup>458</sup>

## 2. Mission

The initial rationale for the SFD’s establishment in 1991 was to compensate returnee workers from the Gulf and alleviate the impacts of neoliberal adjustment among those directly affected by reforms or the “new poor.” These stated objectives were, however, quickly broadened to encompass the promotion of social development, poverty reduction and job creation more generally among the population at large. “While originally intended to be a provider of relief, SFD’s role has progressively evolved into a provider of a wide range of services to those segments of society that are considered at ‘risk’.”<sup>459</sup> Aside from the apparent mismatch between the fund’s resources and its increasingly ambitious goals, the strategic place of the SFD in Egypt’s welfare regime and its long-term objectives remained vaguely defined and became particularly pressing as the organization evolved into a permanent entity.

As a matter of fact, the SFD’s ill-defined mission could be attributed to two

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<sup>457</sup>World Bank, *Implementation Completion Report (IDA-32300) on a Credit in the Amount of \$50 Million to the Arab Republic of Egypt for Egypt-Social Fund III* (Washington, DC: World Bank, 2006).

<sup>458</sup>Project Field Manager Salama Fahmy, Business Development Services Support Projects (BDSSP), *Interview by Author* (Cairo, Egypt: July 31, 2006).

<sup>459</sup>Social Fund for Development, *Multi-Donor Review of the Social Fund for Development: Final Report*, 58.

important trends in the early 1990s. The first trend is state resistance to the overhaul of its welfare regime through replacement of universal subsidies by targeted support, restructuring public expenditure allocations as well as reorientation of social protection policies towards improving market access. Indeed, a World Bank study recommended several reform steps. These were promoting “income earning opportunities” among the poor, improving “equity and cost effectiveness of public expenditures” as well as “equitable and efficient targeting of all secondary income transfers.”<sup>460</sup> The SFD’s establishment was presented by its donors as a first step in these reform efforts and its role was to “enhance the above efforts and to protect the low-income population groups directly affected during implementation of macroeconomic reforms.”<sup>461</sup> More specifically the SFD was envisioned to play a key role in developing a “more appropriate targeting system for subsidies and social welfare payments and to establish permanent monitoring mechanisms to provide the government with the capability to evaluate, on a regular basis, the impacts of macroeconomic and social policy measures in vulnerable groups.”<sup>462</sup> Evidence from the field, however, indicates that although the SFD was initially envisioned as the backbone of a restructured welfare regime, its attempts to lay the grounds for fundamental reforms in that direction were blocked, as further elaborated in chapter IV.

The second trend was the slow pace of structural reforms and the regime’s efforts to preserve support among organized labor. Although donors initially prioritized the SFD’s Labor mobility and Retraining Program, which targeted public sector workers and

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<sup>460</sup> World Bank, *Egypt: Alleviating Poverty During Structural Adjustment World Bank Country Study 1991* (Washington, DC: World Bank, 1991), 124.

<sup>461</sup> Ibid., 124

<sup>462</sup> Ibid., xxvi.

was envisioned as the fund's biggest program, it did not pick up momentum.<sup>463</sup> Indeed, the program stalled since job security among public sector workers was largely maintained under the old and new labor codes.<sup>464</sup> Further, privatization proceeded at a slow pace, prompting a shift away from focusing on compensating laid-off public sector workers and labor re-training.<sup>465</sup>

Against this backdrop, the SFD was compelled to reinvent its functions and in the process its strategic goals became less clear. Indeed, the fund's resources were now re-oriented towards job creation among university graduates through heavily subsidized small business credit. Accordingly, by 1994, the Enterprise Development Program (EDP) received the lion's share of the SFD's funding amounting to L.E. 912.5 million, which represented 44.5 percent of total allocations.<sup>466</sup> The new emphasis on subsidized startups, however, was deeply contentious among some donors such as the World Bank, which refused to fund the SFDs enterprise development program.<sup>467</sup> The SFD, as a result, mobilized funding from alternative donors—initially, it relied exclusively on financing from the GOE and Arab Funds.<sup>468</sup> Aside from subsidized credit provision, the World Bank also opposed the SFD's establishment of the Egyptian Association for

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<sup>463</sup> According to El Gammal, "the labor mobility program was the most popular for the donors and the reason is that it was intended for those who were going to leave the public sector companies and the labor mobility program was aiming at having retraining of redundant labor and perhaps offering a scheme of early retirement so this program was the top for all the donors." Hussein El Gammal, *Interview by Author*.

<sup>464</sup> Human and Community Development Group Tarek Shash Director of the Employment Dept, *Interview by Author* (Cairo, Egypt: May 2, 2006).

<sup>465</sup> Ibid.

<sup>466</sup> Abba Abdel-Latif, *A Review of SFD Activities: Report No 1* (Cairo: CEFRS 1994).

<sup>467</sup> Hussein El Gammal, *Interview by Author*.

<sup>468</sup> Ibid.

Cooperative Insurance (EACI), which guaranteed loans to small entrepreneurs. It received financing from other donors, especially Japan.<sup>469</sup>

In 2001, the SFD was transformed into a permanent organization intended as “a mechanism for contributing to socio-economic balancing within the strategic vision of the GOE.”<sup>470</sup> However, the drafting of a new mission consistent with the SFD’s official shift to long-term operations was put on hold with the change in its leadership in 2002.<sup>471</sup> Further contributing to the ambiguity of the SFD’s strategic role, was the absence of an officially proclaimed national poverty reduction strategy until 2004.

The fund’s institutional evolution entered a new phase with the issuing of law 141/2004, which designated the mandate of the SFD to be Small and Micro-Enterprise (SME) development. This law *officially* reoriented its role away from its initial goals as a safety net geared towards human development. Aside from the challenges entailed in operationalizing this new role, given the fact that responsibility for the sector cuts across the mandates of various ministries, two key sources of tensions have plagued the SFD’s newly formulated mission.

The first source of tension was the fact that the legislation accorded to the SFD supervisory responsibility for coordinating development efforts in the SME sector while simultaneously maintaining its roles in directly providing subsidized financial and technical support to small businesses.<sup>472</sup> The duality of the SFD’s designated roles was a

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<sup>469</sup> Ibid.

<sup>470</sup> Social Fund for Development, *Multi-Donor Review of the Social Fund for Development: Final Report*, 54.

<sup>471</sup> Ibid., V.

<sup>472</sup> In addition, new policy implementation functions were assumed by the SFD as it became responsible for setting up one-stop shops intended to facilitate registration and licensing of small businesses.

serious source of concern for donors, who were by and large opposed to the new legislation. While during interviews donors often made the case that the SFD should strictly serve as an apex organization, or a house of expertise on the small business sector with supervisory and advisory roles, their initiatives aimed at encouraging the SFD to narrowly focus on these strategic functions have been half-hearted attempts. In late 2006, for instance, the EU funded a technical assistance project for the SFD, which was officially welcomed by the Donors Assistance Group's Sub-Committee on SMEs. In my interview with the project's lead consultant, however, he voiced his concern that the restructuring tasks entailed were unlikely to succeed given the short time frame, limited budget as well as the typical problems of poor donor coordination as well as low practical leverage.<sup>473</sup> From his perspective, in order for the SFD to effectively become an apex national organization two essential prerequisites needed to be met. These were getting the different ministries to accept the SFD's role as well as working bottom up within the fund to improve its institutional performance through building capacity among staff. Both prerequisites are difficult to achieve in practice.<sup>474</sup>

Second, despite designating responsibility for "development" of the SME sector to the SFD, the legislation reinforced its welfare focus on the spread of subsidized small businesses. As a matter of fact, article five explicitly stipulates the provision of soft loans and cooperative guarantees for micro and small entrepreneurs. Under the new legislation, the SFD was also mandated to deepen its SME lending role through setting up local special funds at the governorate level aimed at "expanding the credit base in order to

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<sup>473</sup> Terry Foulkes Team Leader Support to Small Enterprise Development Organization, *Interview by Author* (Cairo, Egypt: November 13, 2006).

<sup>474</sup> Ibid.



raise the individual income, improve the family's living standard and limit unemployment."<sup>475</sup> Critically missing, however, were incentives for establishing linkages between small and big businesses or effective strategies for promoting the marketing of SME products in domestic and international markets.<sup>476</sup> In other words, the official redefinition of the SFD's role away from a welfare oriented safety net and towards a development agency remained incomplete, a situation that partially reflected the state's own ambivalent attitude towards small businesses.

### *3. Donor Funding*

Between 1987 and 2001, the World Bank supported the establishment of 60 social funds, which varied significantly in their levels of donor dependency.<sup>477</sup> In the case of Egypt, funding has predominantly been in the form of grants, which amounted to over 60% of total donor financing, in addition to soft loans. While the SFD was initially set up as a financially autonomous unit, since 2004 the fund has been included in the state's budget, a trend reflecting the fund's growing dependence on domestic financing.

Although donors generously financed the SFD in the nineties, in more recent years it has been attracting less donor assistance (see Table 3.1). In 1991, for example, resources to fund the SFD were successfully mobilized through World Bank and UNDP efforts, with seventeen donors pledging a total of US\$835 million, including an IDA

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<sup>475</sup> See article 14 in Government of Egypt, "Executive Regulations for the Small Enterprises Development Law Number 141/2004" (Cairo, 2004).

<sup>476</sup> Indeed, the only exception in the legislation is the designation of 10% of the state's procurements to SMEs. The implementation of this clause has proven difficult thus far due to the high expenses involved in public bidding for government contracts.

<sup>477</sup> Juliana Weissman, "Operating Instructions Included: A Review of Social Investment Fund Operations Manuals" *Social Protection Discussion Paper Series* (2001): 5.

credit of US\$154 million.<sup>478</sup> The Egyptian government modestly contributed \$59 million during the first phase of operation, which according to El-Gammal, “was actually debt relief from USAID from the funds which were allocated to Egypt after the Gulf War and were designated by the Americans for the labour mobility program.”<sup>479</sup> In phase II<sup>480</sup> of the SFD operations 1996-1999, the Egyptian government’s contribution remained relatively small, amounting to \$77 million out of a total of \$630 million. Lastly, in its third, and most recent phase of operations 1999-2006, the SFD received almost \$12 million from the government and the National Bank of Egypt while total funding stood at \$ 94 million including contributions from Germany, IDA, Japan and UNDP.

**Table 3.1: SFD Financing 1993-2006<sup>481</sup>**

|   | <i>Phase I<br/>1993-1995</i> | <i>Phase II<br/>1996-1999</i> | <i>Phase II<br/>1999-2006</i> |
|---|------------------------------|-------------------------------|-------------------------------|
| Total Funding                                   | US\$835 million              | US\$630 million               | US\$94 million                |
| GOE Funding                                     | US\$ 59 million              | US \$77 million               | US\$12 million                |
| Received Funds as a Percentage of Pledged Funds | 99%                          | 74%                           | 44%                           |

*Figures derived from Government of Egypt, "Multi-Donor Review of the Social Fund for Development: Final Report" edited by Social Fund for Development, 2004. 28.*

In fact, donor commitment to the SFD has declined over time as received funds fell relative to pledged amounts from 99 percent in phase I to around 74 percent during phase II of SFD operations and 44 percent in phase III. Among other things, this trend reflects donor fatigue following the end of the Gulf War and discontent with the SFD’s

<sup>478</sup> Social Fund for Development, *Multi-Donor Review of the Social Fund for Development: Final Report*, 211.

<sup>479</sup> Hussein El Gammal, *Interview by Author*.

<sup>480</sup> The SFD has operated in phases based on funding agreements with the World Bank.

<sup>481</sup> Figures derived from Social Fund for Development, *Multi-Donor Review of the Social Fund for Development: Final Report*, 28.

policies. In light of declining donor funding in recent years<sup>482</sup>, the SFD has moved towards self-generation of funding through international consultancy specifically in the design of SFs in Syria and Yemen as well as SME development in Kuwait, Cote d'Ivoire and Mozambique.<sup>483</sup> In addition, recent proposals for the SFD to venture into commercially-based lending, which since the 1980s has been deliberately restricted to banks<sup>484</sup>, could be attributed to the fund's sustainability dilemma. Among the proposed projects is for the SFD to create a new company, AMAL, which is envisioned to provide a full range of microfinance services and extend commercial lending independently from the SFD's mainstream subsidized programs.<sup>485</sup>

To summarize, Egypt's hidden retrenchment process has not been sustained by donor pressure and its patterns cannot be attributed to their influence. Analyzing the restructuring process of Egypt's old safety net since the early nineties reveals that patterns of change did not conform with donor recommendations. The institutional transition from universal indirect transfers to targeted cash support has failed to materialize, a trend indicating the path dependent nature of the state's policies in this area. Donor proposals for overhauling the subsidy and pensions systems as well as introducing cash transfer schemes did not occur. Instead, the state has maintained the prevailing social protection institutions while opting to systematically expand some

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<sup>482</sup> During the course of fieldwork, the SFD was in the process of negotiating funding from the World Bank under the umbrella of a fourth phase of operation. Emmanuel Mbi, World Bank Country Director for Egypt, *Interview by Author* (Cairo, Egypt: December 18, 2005).

<sup>483</sup> Cherine Samir Ex-official at the Social Fund for Development, *Interview by Author* (Cairo, Egypt: January 8, 2006).

<sup>484</sup> The restriction reflects the authorities concerns over potential loss of savings such as those instigated by the Islamic investment companies in the 1980s.

<sup>485</sup> PlaNet Finance, *Project Amal Feasibility Study and Business Plan* (Cairo: PlaNet Finance, 2006).

programs (pensions), marginalize others (social assistance) and periodically change the scope and coverage of its main program (subsidies). Despite the fact that the SFD's introduction was externally driven and donors occasionally exercised conditionality, both the set-up and evolving mission of the fund point to the roles of domestic political dynamics in shaping Egypt's hidden retrenchment, which will be examined in chapter IV. In order to fully comprehend the momentum sustaining retrenchment beyond the initial reforms spanning 1991-1994 and the specific policy choice to promote SMEs through subsidized credit, the following section looks at the role of dominant international discourses in shaping the state's policies in this area.

#### ***IV. The Role of Ideas***

The role of international discourse in shaping the development of welfare policies in the developing world has garnered increasing attention among observers in recent years. Bob Deacon, for instance, has argued that "ideas articulated by epistemic communities within and around international organizations about what constitutes desirable national and international social policy are every bit as important in influencing national and international social policy as the perceived constraints of a deregulated global economy."<sup>486</sup> Along similar lines, Mkandawire suggests that, "responses to an international discourse on 'social rights' permeate domestic politics and affect social policy- or at least the thinking about it."<sup>487</sup>

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<sup>486</sup> Deacon, "From 'Safety Nets' Back to 'Universal Social Protection' Is the Global Tide Turning?," 19.

<sup>487</sup> Thandika Mkandawire, "Social Policy in a Development Context: Introduction" Mkandawire, *Social Policy in a Development Context*, 29.

The comparative politics literature on the welfare state in advanced countries has as well increasingly recognized the role of ideational forces in shaping institutional trajectories.<sup>488</sup> Indeed, institutionalist perspectives have to varying degrees pointed to the transformative power of ideas to explain welfare policy changes over time. Ideas are envisioned to play instrumental or constitutive roles in processes of institutional change typically instigated by crises, exogenous shocks or focusing events.<sup>489</sup>

Building on Kurtz's comparative analysis of Chilean and Mexican welfare the following presumes that constraints on welfare regimes are not only structural but also "rooted in the development ideologies that shape decision-makers" perspectives on such issues as nationalism versus internationalism, the relative value of public action, the efficacy of markets as allocative mechanisms, and the appropriate boundaries of private property relations.<sup>490</sup> The emphasis is thus on the impact of ideas held by policymakers, which are often informed by the internationally prevailing development paradigm, in shaping welfare policies. As argued by Kurtz, the "idea system that decision makers bring to government" are "substantially more limiting than the strict but wide boundaries imposed by the logic of the developmental model itself" since they serve as "ideological blinders" precluding empirical assessments of certain welfare policies, thereby potentially undermining poverty reduction efforts.<sup>491</sup>

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<sup>488</sup> Viven Smidt, "Does Discourse Matter in the Politics of Welfare State Adjustment," *Comparative Political Studies* 35, (March 2002).

<sup>489</sup> See discussion in Gyu-Jin Hwang, *Pathways to State Welfare in Korea : Interests, Ideas and Institutions*, Social Policy in Modern Asia (Burlington: Ashgate, 2006).

<sup>490</sup> Marcus J Kurtz, "The Boundaries of Anti-Poverty Policy: Economic Ideas, Political Coalitions, and the Structure of Social Provision in Chile and Mexico," in *Changing Paths: International Development and the New Politics of Inclusion* ed. Mick Moore and Peter Houtzager (Ann Arbor: University of Michigan Press, 2003), 142.

<sup>491</sup> Ibid., 142.

In the case of Egypt, the deepening economic crisis and donor conditionality instigated the adoption of neoliberal reforms in 1991. Whereas there was no evidence of a “change team” in place until as recently as 2004, I would argue that there was a gradual ‘paradigm’<sup>492</sup> shift in welfare policymaking since the mid-1990s. Indeed, economic reforms opened the space for actors within the state to articulate a productivist discourse on welfare and to emphasize macro-economic balancing over equity promotion through subsidies. The efforts of neoliberal-minded reformers within the state were facilitated through the establishment of specialized technical units within major economic ministries, agencies and boards. Crucially, these technical units employed qualified Egyptian staff at market-competitive salaries, and functioned autonomously from mainstream ministry hierarchies. The units were financed by, the United States Agency for International Development (USAID), and the United Nations Development Programme (UNDP) a fact that allowed them to avoid government auditing and scrutiny by parliament during the budgeting process.<sup>493</sup>

Among the most notable actors in the process of policy learning was Youssef Botrus Ghali, who served as a chief economist in the early 1980s at the IMF and was recently elected chair of the its policy setting committee. Ghali played a prominent role in Egypt’s negotiation of the 1987 and 1991 stand-by agreements with the IMF, as well as its debt rescheduling arrangements with the Paris Club. In the mid-1990s, he progressively gained authority over economic policymaking as Minister for Economic Affairs (1996-1997), Minister of Economy and Foreign Trade (1998-2001), Minister of

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<sup>492</sup> I use the term along the lines of Peter Hall to refer to interpretive policy frameworks, see Hall, "Policy Paradigms, Social Learning, and the State", 279.

<sup>493</sup> Anne Mariel Peters, "Whither Economic Reform?," *Arab Reform Bulletin*, July/August 2009.

Foreign Trade (2001-2004), and most recently Minister of Finance (2004-). Up to the issuing of the small business law in 2004, Ghali's portfolio included the development of the SME sector. Under his tutelage, the Canadian International Development Agency (CIDA) and International Development Research Center (IDRC) financed a major project on Micro-Small and Medium-Enterprise (MSME) Policy Development. The project's primary goal was:

“To support Egypt's transition towards a market economy through activities that would lead to *“an improved policy environment, resulting in reduced financial and non-financial constraints and opportunities for MSME development.”*<sup>494</sup>

Accordingly, it aimed to

“help the Ministry of Economy and Foreign Trade (the host Ministry changed over time)<sup>495</sup> to develop policies, legislation, regulations, and procedures that would support MSME development. To achieve this goal and purpose, the project focused on policy development with complementary support for training, research, and networking.”<sup>496</sup>

In addition, since the second half of the 1990s “experts at the interface between the bureaucracy and the intellectual enclaves of society,”<sup>497</sup> systematically articulated a neoliberal vision under the umbrella of the Egyptian Center for Economic Studies (ECES).<sup>498</sup> Funded by prominent businessmen, the ECES has been described as “the primary institution for translating the broad principles of neoliberal reform into specific

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<sup>494</sup> Julius Court and David Osborne, *Independent Evaluation of the Smepol Project: Impact, Lessons and Options for Replication* (London: Overseas Development Institute, 2006), 4. MSME refers to Micro-Small-Medium Enterprises.

<sup>495</sup> The change in host Ministries was due to a cabinet shuffle that moved Ghali from the Ministry of Economy to the Ministry of Foreign Trade.

<sup>496</sup> Court and Osborne, *Independent Evaluation of the Smepol Project: Impact, Lessons and Options for Replication*, 4.

<sup>497</sup> Hall, "Policy Paradigms, Social Learning, and the State," 279.

<sup>498</sup> See discussion in Rutherford, *Egypt after Mubarak : Liberalism, Islam, and Democracy in the Arab World*.

policy proposals that suited Egypt's situation."<sup>499</sup> The center issued detailed reports and research papers on a range of policy issues including, the weak protection of property rights in the informal sector and the role of SMEs in economic development.<sup>500</sup> On the question of welfare in Egypt, the ECES has called for strengthening the state's provision of social services, in order to promote labor mobility, as well as economic growth.<sup>501</sup> The influence of this think-tank on policymaking increased with Gamal Mubarak's appointment to the NDP's governing body in 2000.<sup>502</sup> As Gamal's power within the party grew and he inaugurated the NDP's "New Thinking," he began to appoint individuals associated with the ECES to key positions in the party. For instance, Mahmoud Mohieldin, an economist who contributed to developing proposals for reforming the financial sector, was made chairman of the NDP's economic affairs committee.<sup>503</sup> In addition, he was later promoted to become a member of the party's General Secretariat and appointed Minister of Investment.

As a result of efforts by actors within the state and experts associated with ECES, there are signs of policy learning or the adoption of a new interpretive "framework of ideas and standards that specifies not only the goals of policy and the kind of instruments that can be used to attain them, but also the very nature of the problems they are meant to be addressing."<sup>504</sup> The ongoing paradigm shift has, however, remained incomplete

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<sup>499</sup> Ibid., 211.

<sup>500</sup> Hernando De-Soto, "Dead Capital and the Poor in Egypt," (lecture, Egyptian Center for Economic Studies Distinguished Lecture Series, Cairo, January, 1998).

<sup>501</sup> Ahmed Galal, "Social Expenditure and the Poor in Egypt," *Egyptian Center for Economic Studies Working Paper* 89 (November 2003).

<sup>502</sup> Rutherford, *Egypt after Mubarak: Liberalism, Islam, and Democracy in the Arab World*, 219.

<sup>503</sup> Ibid., 220.

<sup>504</sup> Hall, "Policy Paradigms, Social Learning, and the State."



because it exists in tension with a moral economy of social entitlements. This section explores normative influences on Egypt's welfare retrenchment process. More specifically, I develop two themes: the impact of neoliberal macroeconomic norms on subsidy expenditure levels and the selective appropriation of productivist welfare principles in the case of the SFD. I argue that the neoliberal development discourse has influenced aspects of ongoing welfare retrenchment, but has played a less central role in shaping the process than the regime's power maintenance logic, or policy legacies of the insurance-based regime.

### **A. Neoliberal Ideology and Welfare Expenditures**

Observers commonly point to a "retreat within international social policy discourse during the 1980s and 1990s from the idea of universal entitlement to social provision and welfare and its replacement by the idea of targeted and selective allocations to the poor with private provision for the better off."<sup>505</sup> The state's welfare functions, now relegated to the residual category of "safety nets", serve to offset policy failures rather than actively "promote equitable and socially sustainable development."<sup>506</sup> At the heart of this change in the scope of social policy is the deflationary emphasis of dominant neoliberal thinking on macroeconomic policies.

In fact, the US decision to abandon the gold standard in 1971, the subsequent difficulties in re-establishing stability of exchange rates, the challenges of "stagflation" following the oil crisis in 1973 as well as growing integration in trade and finance since the eighties have undermined the post-War "Keynsian consensus" underlying the

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<sup>505</sup>Bob Deacon, "The Politics of Global Social Policy " (paper presented at *UNRISD Conference on Social Knowledge and International Policy Making: Exploring the Linkages*, Geneva, Switzerland, 20-21 April 2004), 3-4.

<sup>506</sup>Mkandawire, *Social Policy in a Development Context*, 4.

traditional welfare state.<sup>507</sup> Structural shifts in the world economy have introduced a “new and quite fundamental, tradeoff...between egalitarianism and employment”, while the welfare state has been endogenously challenged by a growing disjuncture between existing social protection schemes, on the one hand and evolving risks, on the other, due to changes in life cycles as well as family and occupational structures.<sup>508</sup> Against this backdrop, the rise of neoliberalism has given high priority to “low inflation, low public debt, low public expenditure, low taxation and low budget deficit” in macroeconomic policies.<sup>509</sup> In other words, the ability of the state to enact widespread fiscal redistribution is purportedly constrained by a neoliberal commitment to macroeconomic balancing and low taxes.<sup>510</sup>

In the case of Egypt, official discourse on the state’s welfare responsibilities focuses predominantly on subsidies and draws on neoliberal tenets to justify their gradual withdrawal.<sup>511</sup> For instance, the Minister of Finance has routinely linked the state’s budget deficit and rising inflation to the subsidy bill and suggested that lower taxes and customs would be a more effective approach to alleviating poverty.<sup>512</sup> Further, the

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<sup>507</sup> Basak Kus, "Neoliberalism, Institutional Change and the Welfare State: The Case of Britain and France " *International Journal of Comparative Sociology* 47, no. 6 (2006): 492.

<sup>508</sup> Esping-Andersen and United Nations Research Institute for Social Development, *After the Golden Age : The Future of the Welfare State in the New Global Order*, 2, 6-7.

<sup>509</sup> Diane Elson, "Social Policy and Macroeconomic Performance," in *Social Policy in a Development Context*, ed. P. Thandika Mkandawire (New York: Palgrave Macmillan, 2004), 68.

<sup>510</sup> Kurtz, "Understanding the Third World Welfare State after Neoliberalism: The Politics of Social Provision in Chile and Mexico."

<sup>511</sup> See Elson, "Social Policy and Macroeconomic Performance," 6.

<sup>512</sup> See Ghassan Essam El Din, " Silver Linings," *Al Ahram Weekly*, June 14-20, 2007; *Al Masry Al Youm*, "Dr Youssef Ghali Minister of Finance: I Am Fundamentalist and Extremist in My Economic Convictions," August 26, 2006; Ghassan Essam El-Din, "Economy Tops the List," *Al Ahram Weekly*, Sept-04 October-10, 2004.

Minister of Social Solidarity has repeatedly argued that “subsidies are a danger to the poor”<sup>513</sup> and are unsustainable on the long run. Appealing to international experiences, officials make the case that subsidies are ineffective in alleviating poverty. In the words of one official, “if subsidies are doubled nobody will lower poverty because leakage will go up and quality of goods will do down and the developmental goals will disappear...God will not change the state of a nation unless they change it themselves.”<sup>514</sup> Along parallel lines, public discourse has also increasingly pointed to the roles of businessmen and civil society in shouldering responsibility for the welfare of society. In fact, the recent renaming of the Ministry of Insurance and Social Affairs as the Ministry of Social Solidarity, was interpreted by officials as implying “a mutual relationship between two or more parties” and recognition of non-state actors’ involvement in social provision.<sup>515</sup> Further, the NDP’s social policy papers reflect a new official emphasis on ‘participation’ by civil society “as a pillar for efficient implementation, and securing the financial and human resources that are necessary for realizing the goals of social spending.”<sup>516</sup>

## **B. Productivist welfare**

In the neoliberal ideational system, the problem of poverty is defined in terms of lack of market access. Further, the “political terrain within which solutions are debated” minimize the social role of the state as inefficient or predatory and emphasize expanding

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<sup>513</sup> *Al Masry Al Youm*, "Meselhy: Continuing Subsidies Only Will Not Solve the Poverty Crisis," March 30, 2006; Ghassan Essam El Din, "Silver Linings."

<sup>514</sup> *Ibid.*, 6.

<sup>515</sup> Abdel Rahman Aql, "Cabinet Change between Integration and Modernization: Drafting a New Social Contract: Interview with Dr. Aly Meselhy Minister of Social Solidarity", *Al Ahram*, January 21, 2006, 16.

<sup>516</sup> National Democratic Party, "Social Development and Poverty Alleviation Policy Paper", 38.

economic opportunities for the poor as the key to poverty alleviation. The neoliberal turn in advanced welfare states has thus been accompanied by increased emphasis on the obligation to work as “passive” income supports were de-legitimized and replaced by measures designed to stimulate “active society.” According to Neil Gilbert, “the increased emphasis on the beneficiaries’ obligation to work in modern reforms of social assistance policy has been accompanied by the expanded use of financial incentives and sanctions to encourage entry into the labour force.”<sup>517</sup>

The emphasis on production-oriented welfare programs, which “correct market failures that block the economic participation of the poor (for example, access to credit, failings of human capital)”<sup>518</sup>, has been reflected in World Development Reports. For instance, the *1990 Report on Poverty* emphasized measures designed to expand income-earning opportunities among the poor. Aside from encouraging a pro-poor pattern of growth, through liberalizing agriculture and encouraging urban informal employment, the report has also stressed improving the poor’s access to land, credit, infrastructure and productive inputs.<sup>519</sup>

In spite of the ideological mystification of free markets and the power of neoliberal orthodoxy, the sharply pro-market and anti-statist positions of the Washington Consensus were slightly modified in the late 1990s. The focus on ‘good governance’, reflecting a thrust of reform within the Bank, served to ‘theoretically rehabilitate’ the state as a

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<sup>517</sup> Neil Gilbert, "Welfare, Poverty and Social Services: International Experiences," in *Lessons from Abroad: Adapting International Social Welfare Innovations*, ed. Merl C. Hokenstad, James Midgley, and National Association of Social Workers (Washington, DC: NASW Press, 2004).

<sup>518</sup> Kurtz, "Understanding the Third World Welfare State after Neoliberalism: The Politics of Social Provision in Chile and Mexico."

<sup>519</sup> World Bank, *World Development Report 1990: [Poverty]* (Oxford: Oxford University Press, 1990).

significant actor in the process of socioeconomic change within the development discourse. Joseph Stiglitz, expressed the slightly revised thinking of the Bank, stating “we should not see the state and markets as substitutes... the government should see itself as a complement to markets, undertaking those actions that make markets fulfill their functions better.”<sup>520</sup>

In the realm of social policy, the “post- Washington consensus” acknowledged concerns about social protection and poverty reduction following a series of financial crises since the mid-1990s. The new consensus, as reflected in the 2000 World Development Report *Attacking Poverty* broadly conceived poverty alleviation to entail promoting opportunity, facilitating empowerment as well as enhancing security,<sup>521</sup> rather than just improving incomes through generating economic growth and introducing trickle-down instruments. Nonetheless, the report did not abandon the “neoliberal basics centered on economic liberalization, fiscal restraint and a nimble state that facilitates the integration of people into the market.”<sup>522</sup> Adopting a “social risk management” approach to reducing the vulnerability of the poor, *Attacking Poverty* continued to promote the earlier generation of safety nets and reconfirmed the proposition that social protection should not solely be the state’s responsibility but should be co-shouldered by the market and families. Like the 1990 report, *Attacking Poverty* advocated improving access to financial markets as a central component of promoting “well functioning markets”

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<sup>520</sup> Stiglitz cited in Ben Fine, Costas Lapavitsas, and Jonathan Pincus, *Development Policy in the 21st Century: Beyond the Post-Washington Consensus*, Routledge Studies in Development Economics (New York: Routledge, 2001), 3.

<sup>521</sup> World Bank, *World Development Report 2000/2001: Attacking Poverty* (Oxford: Oxford University Press, 2001).

<sup>522</sup> Sahara Razavi, "The Return to Social Policy and the Persistent Neglect of Unpaid Care," *UNRISD Draft Working Paper* (2007), 2.

capable of creating opportunities for people to escape poverty.<sup>523</sup> According to the report, “like all economic agents, low income households and micro-enterprises” can benefit from credit facilities, “which can help make larger investments more affordable, and so allow people to take advantage of profitable business opportunities and increase their earnings potential.”<sup>524</sup> Further, echoing the earlier report *On Poverty*, the authors of *Attacking Poverty* adamantly opposed the extension of subsidized credit to the poor. High levels of government intervention in the form of targeted credit were presented as misguided efforts that distort financial markets.<sup>525</sup>

Aside from official development discourse, small businesses figure prominently in neoliberal thinking both on welfare and private sector development. On the one hand, the poor are envisioned as entrepreneurial and economically active in the informal sector, which renders small business credit programs a central component of neoliberal styled welfare programs. In this perspective, “because the poor save money and have developed a variety of business skills, all they need is the means to increase their turnover. The key element required to turn them into successful business people is access to formal credit.”<sup>526</sup> While some like Hernando De Soto have made the case for legally recognizing the poor’s “dead capital” as collateral<sup>527</sup>, Muhammad Yunus and others have adopted unconventional collateral, such as group lending. For the latter, Grameen Bank’s adoption of unconventional collateral has opened space to envision the poor as active

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<sup>523</sup> See World Bank, *World Development Report 2000/2001: Attacking Poverty* (Oxford: Oxford University Press, 2001), 74-76.

<sup>524</sup> *Ibid.*, 74.

<sup>525</sup> *Ibid.*, 75.

<sup>526</sup> Alan Gilbert, "On the Mystery of Capital and the Myths of Hernando De Soto," *International Development Planning Review* 24, no. 1 (2002).

<sup>527</sup> Hernando de Soto, *The Mystery of Capital: Why Capitalism Triumphs in the West and Fails Everywhere Else* (New York: BasicBooks, 2000).

agents who can make “a living through self employment, finding ways to develop goods or services that they sell directly to those who need them” rather than await wage employment.<sup>528</sup> On the other hand, the predominantly informal small businesses are often celebrated as constituting the private sector, the economy and the major employer outside agriculture.<sup>529</sup> As the epitome of entrepreneurial initiative struggling against the heavy handed bureaucratic intervention of corrupt states, these businesses are celebrated by DeSoto and others, as the dynamic engine of growth in developing states.<sup>530</sup> Thus, in neoliberal ideology, small business credit programs for the poor fit both as production oriented welfare initiatives as well as private sector development.

The influence of neoliberal discourse on small businesses is evident in the case of Egypt although, as elaborated in the next chapter, policy legacies and the moral economy of social entitlements have continued to shape the SFD’s policies and welfare retrenchment as a whole. Indeed, the Fund’s goal of improving market access among the poor and the unemployed, through expanding the small business sector, is a departure from the country’s pre-existing insurance-centered welfare regime. In its capacity as an organization aimed at improving the “earning power” of vulnerable groups, the SFD has been considered one of the main pillars in Egypt’s poverty alleviation strategy.<sup>531</sup> The latter’s emphasis on production has extended beyond the provision of credit and technical

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<sup>528</sup> Yunus and Weber, *Creating a World Without Poverty: Social Business and the Future of Capitalism*, 52-53.

<sup>529</sup> Julia Elyacher, "Mappings of Power: The State, NGOs, and International Organizations in the Informal Economy of Cairo," *Comparative Studies in Society and History* 45, no. 3 (2003), 590.

<sup>530</sup> See Hernando de Soto, *The Other Path : The Invisible Revolution in the Third World* (London: Tauris, 1989).

<sup>531</sup> Ministry of Planning, *A Poverty Alleviation Strategy for Egypt* (World Bank, 2004), 40.

capacity to include programs promoting an “entrepreneurial culture” among university graduates.<sup>532</sup> Along the lines of the dual neoliberal rationales for small enterprise promotion, SFD publications refer to them as “in effect the catalyst of Egypt’s comprehensive development, through which new employment opportunities are made available, and poverty is reduced.”<sup>533</sup> Further, the 2005 presidential campaign and the 2006 cabinet’s statement incorporate the SFD as a vehicle for creating 150,000 jobs annually.<sup>534</sup>

Alongside the productivist emphasis of the SFD’s policies, there has been a redefinition of poverty in public discourse in terms of low productive capacities as opposed to material deprivation<sup>535</sup> a tendency signaling the official reorientation of welfare to relate more closely to the neoliberal perspective of facilitating market access. Indeed, the ruling National Democratic Party (NDP)’s policy paper on “*Social Development and Combating Poverty*” reflects this official attempt to redefine poverty. It articulates the NDP’s call for “the move away from the conventional understanding of poverty as low-incomes” and its alternative conceptualization in terms of “low human capacities and inadequate social services.”<sup>536</sup> Emphasizing a market-based “empowerment approach” to poverty, the report states: “breaking the chain of poverty demands human investment in education and health, as well as guaranteeing the poor’s

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<sup>532</sup> See Elyachar, *Markets of Dispossession: NGOs, Economic Development, and the State in Cairo*.

<sup>533</sup> Social Fund for Development, *Multi-Donor Review of the Social Fund for Development: Final Report*, 11.

<sup>534</sup> Prime Minister Office, “Government Statement to Majles El Shaab ” (Cairo: 2006).

<sup>535</sup> Islam Refaat, “The Minister of Social Solidarity: Development before Subsidies”, *Al Ahram El Iqtisady*, November 13, 2006, 32.

<sup>536</sup> National Democratic Party, “Social Development and Poverty Alleviation Policy” Paper, 38.



access to adequate public services.”<sup>537</sup> The official redefinition of poverty along neoliberal lines has, nonetheless, remained incomplete. In fact, the NDP’s policy papers reflect a persisting tension between guaranteeing universal subsidized consumption of basic goods and services on the one hand, and the adoption of targeted interventions that are officially geared towards improving market access by the poor, on the other hand. As elaborated in the following chapter, I argue that this tension reflects the influence of a moral economy of social entitlements.

#### *V. Conclusion*

Egypt’s linkages to the world economy have not imposed strong structural constraints on the state’s social policy-making. With significant access to external rents as well as low trade and investment flows, the state has been able to maintain a margin of autonomy in its budget allocations and the trajectory of its welfare regime has been preserved. The influence of donors on the welfare retrenchment process has also been weak, despite the fact that the initial momentum for scaling back subsidies and introducing the SFD was actually driven by the World Bank. As argued by Stallings, “leverage is most effective when resources are scarce, creditors are unified, and the incentives they offer are credible.”<sup>538</sup> None of these has been the case for Egypt. As demonstrated by the SFD’s set-up and the evolution of its mission, divisions among donors, the country’s access to sizable foreign grants and soft loans as well as the unwillingness of donors to press for specific benchmarks, have weakened external influence over the retrenchment process. Nonetheless, the impact of the dominant

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<sup>537</sup> Ibid., 38.

<sup>538</sup> Stallings, "International Influence on Economic Policy: Debt, Stabilization and Structural Reform," 55.

neoliberal development paradigm has been evident in shrinking expenditure levels on subsidies as well as the productivist emphasis of the SFD's small business promotion programs. While neoliberal ideology has been appropriated by state officials, to justify scaling back subsidies and the promotion of small businesses, as elaborated in the next chapter, hidden patterns of retrenchment have been molded by regime interests and a prevailing moral economy of social entitlements.

## **Chapter IV**

### **The Domestic Political Economy of Hidden Retrenchment**

While donors and neoliberal ideology have influenced aspects of the retrenchment process, as argued in chapter III, the evolution of welfare regime restructuring in Egypt cannot be attributed wholly or even mainly to external influences. I contend in this chapter that the process of welfare retrenchment has been primarily molded by the prevailing moral economy of social entitlements, as well as by the authoritarian regime's power maintenance logic in the face of widening support for the Muslim Brotherhood (MB) Egypt's mainstream Islamist opposition movement. Although welfare retrenchment is rooted in the crisis of accumulation, which hit severe levels in the late 1980s following the decline of rents accruing to the state and the rise in external debt levels, economic dynamics do *not* explain hidden institutional shifts in the country's welfare regime. As for patterns of institutional change-through dilution, conversion and layering, I argue that they are influenced by the prevailing moral economy, the number of program beneficiaries, as well as the nature of the ruling regime and its interests.

The chapter begins by analyzing two important aspects of Egypt's economic context, which typically influence welfare reform initiatives. These are the underlying switch in the official development strategy, and the fiscal status of the state. Next, in section II, I propose the notion of a moral economy of social entitlements in order to grasp the policy legacies of the statist social contract policies under Nasser. The discussion moves on to analyzing the impact of the moral economy of social entitlements

and the regime's power maintenance logic in section III. More specifically, I explore the state's relationship with limited income groups, the primary beneficiaries of the prevailing moral economy, using Joel Migdal's "state in society" framework. Section IV analyzes bounded institutional changes in Egypt's welfare regime and seeks to explain hidden retrenchment patterns through dilution, conversion and layering.

### ***I. Economic Dynamics***

The structural shift in the state's development strategies as well as the fiscal constraints it faces, constitute key economic influences on welfare regimes in the neoliberal era. Since the adoption of the free market development model has serious consequences both for state-owned enterprises as well as labor markets, it potentially carries, as well, serious implications for the structural foundations of the insurance-based welfare regime. Similarly, fiscal constraints affect the feasibility of sustaining social protection programs including contributory cash transfer, income generation schemes and the food subsidy system.

#### **A. Development Strategy**

The shift from Import Substitution based Industrialization (ISI) to the neoliberal export-oriented free market development model typically entails the privatization of state assets as well as labor market reforms. Recent studies have highlighted the potentially important implications of underlying changes in development strategies for the structural foundations of insurance-based welfare regimes, such as Egypt's.<sup>539</sup> This section

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<sup>539</sup> The structural foundations of insurance-based regimes are levels of formal employment in the public and private sectors. Dion, "Retrenchment, Expansion and the Transformation of Mexican Social Protection Policies;" Haggard and Kaufman, *Development, Democracy, and Welfare States: Latin America, East Asia, and Eastern Europe*; and Seekings, "The Politics of Welfare Regimes in The "South".

explores the extent of structural shifts in the economy and their implications for Egypt's welfare regime.

### 1. *Privatization*

In the case of Egypt, the historical adoption of nationalization laws in 1956 and 1962 “led to a change in the relative distribution of income without much transfer of income from the rich to the poor.”<sup>540</sup> Nonetheless, the state's control over the main assets in the economy facilitated the enactment of benefits for wage earners “including minimum wage legislation, upper ceiling on incomes and salaries, reduction of work hours, profit sharing, generous sick leave, protection against unfair dismissal and equality of wages for women and men.”<sup>541</sup> Since the bulk of the formal sector was state-run, the process of privatization posed potential challenges to social protection commitments. The country's controversial privatization program began with the government's enactment of law 203 in 1991. This law paved the way for full or partial privatization of SOEs and “sought to make them operate more efficiently by grouping them into several dozen holding companies”, which were to be managed according to market principles.<sup>542</sup> In the early nineties, the program proceeded slowly and targeted companies in “industry, agribusiness and services, which account only for 10 percent of the GDP and 8 percent of the labor force (1.1 million people), accounting for 70 percent of total industrial output.”<sup>543</sup> Despite IMF conditionality, the 1991 reform package favored decentralization of

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<sup>540</sup>El-Issawy, "Interconnections between Income Distribution and Economic Growth in the Context of Egypt's Economic Development,"129.

<sup>541</sup> Ibid.

<sup>542</sup>Marsha Posuseny, "Globalization and Labor Protection in Oil-Poor Arab Countries: Racing to the Bottom?," *Global Social Policy* 3, no. 3 (2003): 272-273.

<sup>543</sup> Belev Boyan, "Privatization in Egypt and Tunisia: Liberal Outcomes and/or Liberal Policies?" in *Global Development Network Research Paper* (Global Development Network, 2001), 1-2.

decision-making in the public sector over divestiture and “privatization measures such as selling 10% of the shares to a company’s employees without transferring common shareholder rights, or selling a minority of the shares to other state enterprises or public-private joint ventures” came to be accepted as “privatization.”<sup>544</sup>

In 1996, privatization rose to the forefront of new negotiations with the IMF and by 1999, 120 out of the original 314 portfolio companies were officially earmarked for privatization. These included the sale of majority stakes in 36 companies, 28 companies sold to employee shareholder associations and ten anchor investor sales.<sup>545</sup> However, the program was not fully implemented and according to Posusney, only 22 new sales were announced through the fall of 2002.<sup>546</sup> Subsequently, in 2004, privatization seemed set to pick up pace,<sup>547</sup> as a new Ministry of Investment was established to streamline procedures and manage state-owned assets. This step has followed the appointment of Ahmed Nazif as prime minister and the assumption of key positions by technocrats and businessmen allied with Gamal Mubarak, the president’s son and the head of the ruling National Democratic Party’s Policies Secretariat. Nonetheless, widespread opposition has continued to halt privatization efforts as shown by the cancellation of bids for Banque Du Caire in 2008.<sup>548</sup>

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<sup>544</sup> Weiss and Wurzel, *The Economics and Politics of Transition to an Open Market Economy Egypt*, 197.

<sup>545</sup> Economist Intelligence Unit, "Egypt Country Report," (1999), 19.

<sup>546</sup> Posusney, "Globalization and Labor Protection in Oil-Poor Arab Countries: Racing to the Bottom?," 273.

<sup>547</sup> Assets privatized, between mid-2004 and mid-2006, are valued at L.E. 16 billion.

<sup>548</sup> Controversial sale deals and allegations of corruption prompted the government to amend the public enterprise law stipulating that proposed sales of state-owned companies be referred first to the Economic Ministerial Group. Economist Intelligence Unit, "Egypt Country Report," (2006).

What were the ramifications of Egypt's privatization record for its welfare regime? I argue that the process of privatization did not compromise income security for public sector workers and did not significantly undermine their security benefits. In the 1990s, Mubarak's regime took careful steps to address workers' concerns over the process and mass layoffs were avoided. Recent studies put total privatization related layoffs at 12 percent of parastatal workers,<sup>549</sup> while annual job growth in the public sector was estimated at -0.2 percent between 1998 and 2006.<sup>550</sup> These patterns reflect the fact that, "no lay-off clauses were specified in the agreements to sell SOEs" and "Employee Share Ownership Plans (ESOP) were vigorously promoted."<sup>551</sup>

Since until recently the labor law precluded mass layoffs, the government extended early retirement and retraining packages in order to streamline the workforce prior to sale. These packages targeted workers between 50-58 years old with 30 percent of the funding provided by the SFD until 1996-1997 when the program was discontinued.<sup>552</sup> On the whole enrollment in early retirement fell short of government expectation, a fact reflected by the modest budget expenditure by the SFD on labor restructuring services, which as of May 2006 ranged in the amount of 400-500 million L.E.<sup>553</sup> The official pool of workers targeted by the SFD's retraining department in 2006

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<sup>549</sup> Posuseny, "Globalization and Labor Protection in Oil-Poor Arab Countries: Racing to the Bottom?," 289.

<sup>550</sup> Ragui Assaad, "Unemployment and Youth Insertion in the Labor Market in Egypt," *Egyptian Center for Economic Studies Working Paper* 118 (February 2007): 24.

<sup>551</sup> Posuseny, "Globalization and Labor Protection in Oil-Poor Arab Countries: Racing to the Bottom?," 276.

<sup>552</sup> The early retirement packages, which were individually negotiated by executives of SOEs and SFD officials included a lump sum payment and a monthly pension plan under the mainstream state administered social security system.

<sup>553</sup> Tarek Shash Director of the Employment Dept, *Interview by Author*.

was approximately 30 percent of 50,000 workers in enterprises earmarked for divestiture.<sup>554</sup>

## *2. Labor Market*

The adoption of the free market development model has been associated with mixed developments in Egypt's labor market. On the one hand, the state employment guarantee system was never officially ended and civil service employment continued to expand over the period 1988-1998, with only recent signs of slowing down. On the other hand, the issuing of a new labor code in 2003 sanctioned temporary hiring practices in the formal sector while the informal sector has continued to expand. Notwithstanding the significance of recent changes, I would argue that, on balance, the foundations of Egypt's insurance-based welfare regime have been maintained.

Neoliberal restructuring did not lead to a rupture in the state's role as the major employer in the economy. As elaborated in Section II, under Nasser, employment expansion and the state's formal commitment to employ all graduates of higher education institutions in the civil service and public sector served to extend income security to a rapidly expanding middle class. By prolonging the waiting period for graduate appointments from 1-2 years to 2-4 years,<sup>555</sup> eroding "real wages though keeping cost of living adjustments below the inflation rate" and pursuing a "permissive policy toward

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<sup>554</sup> Ibid. This initiative focused on the textiles industry and was faced resistance by the workers, who waged strike action between 2006-2008. At the time of writing it is unclear if the SFD plans materialized.

<sup>555</sup> Denis Sullivan, "Bureaucracy and Foreign Aid in Egypt: The Primacy of Politics," in *The Political Economy of Contemporary Egypt*, ed. Ibrahim M. Oweiss and Georgetown University Center for Contemporary Arab Studies (Washington, DC: Center for Contemporary Arab Studies, Georgetown University, 1990), 131.



unpaid leaves of absence,”<sup>556</sup> the state has *de facto* limited its commitment to public employment since the 1970s.

Nonetheless, a 2003 World Bank report critically highlighted the fact that the public sector remains the biggest employer in Egypt and in the Middle East more broadly, with the region boasting the highest levels of state employment worldwide in the nineties.<sup>557</sup> Indeed, census data from 1976 to 1986, indicate that government employment continued to increase by 3.7 percent per year, more than twice the overall rate of employment growth.<sup>558</sup> In the 1990s, although the state officially ceased to provide “permanent” hiring and employment in state owned enterprises contracted, civil service employment rapidly expanded at an annual rate of 5.3 percent.<sup>559</sup> While some attribute this phenomenon to population trends and the changing behavior of existing female civil servants, who have become more likely to continue working after marriage<sup>560</sup>, there is evidence that the state is reluctant to withdraw from its role as the major employer in the economy. Although hiring through the centralized manpower allocation system has been frozen, “temporary employment” has been maintained at the government unit level. This practice opened space for the eventual permanent hiring of 1.2 million employees between 1984 and 1999.<sup>561</sup> A recent official estimate of currently

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<sup>556</sup>Ragui Assaad, "Structural Adjustment and Labor Market Reform in Egypt," in *Economic Liberalization and Privatization in Socialist Arab Countries: Algeria, Egypt, Syria and Yemen as Example*, ed. Hans Hopfinger, *Nahost Und Nordafrika* (Gotha, Germany: J. Perthes Verlag, 1996), 37.

<sup>557</sup>Schiavo-Campo, De Tommaso and Mukherjee, "An International Statistical Survey of Government Employment and Wages."

<sup>558</sup>Assaad, "Structural Adjustment and Labor Market Reform in Egypt," 37.

<sup>559</sup>———, "Institutions, Household Decisions, and Economic Growth in Egypt," 395.

<sup>560</sup>Ibid.

<sup>561</sup>Mohamed Elsaadany, "Dr. Safwat El Nahass Head of the Central Organization for Administration," *Al Masry Al Youm*, March 14, 2008.

“temporary” state employees put their number at approximately 400, 000 civil servants.<sup>562</sup> Thus, despite the slowing down in annual government hiring rates over the last few years, the state has continued to serve as the major employer in the economy.<sup>563</sup>

As a matter of fact, the government’s longstanding employment guarantee policy was never officially rescinded. Indeed, a 2005 draft legislation to reform civil service by allowing temporary contracts, part-time work, laying off of state employees, the hiring of non-Egyptian Arab citizens and restricting the guarantee of state employment to war veterans and their descendants,<sup>564</sup> was quickly withdrawn in the face of widespread opposition. Public expenditure on wages remained the biggest expenditure item in the state’s budget and continued to rise from 17 percent in 1983 to 20.3 in 2001<sup>565</sup> and 21.4 in 2006.<sup>566</sup> In addition, the 2006-07 budget included a 12.2 percent increase in salary levels.<sup>567</sup> Although real wages fell overall, they remained relatively higher than the private sector. Thus, between 1987 and 1996, real wages per week in the public sector fell from L.E. 34.5 to L.E. 27.5 versus a sharp decline from L.E. 39.1 to L.E. 24.3 in the private sector.<sup>568</sup>

Despite the fact the retrenchment has coincided with patterns of continuity in the labor market, represented by the state’s continued role as the biggest employer in the

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<sup>562</sup> Ibid.

<sup>563</sup> Assaad, "Unemployment and Youth Insertion in the Labor Market in Egypt," 24. According to this study, between 1998 and 2006, rate of growth in government employment was 1.6%.

<sup>564</sup> *Al Masry Al Youm*, "The New Public Employment Law... Legitimate Law to Exclude and Displace the Civil Servants," November 25, 2006; and *Al Masry Al Youm* "Darweesh Retreats on Civil Service Contracts," May 28, 2007.

<sup>565</sup> Samer Soliman, *Strong Regime and Weak State* (Cairo: Merit, 2006), 81.

<sup>566</sup> Calculated by the author from Ministry of Finance, *The State Public Budget 2005-06*.

<sup>567</sup> Gamal Essam El Din, "Future Budgeting," *Al Ahram Weekly* May 25-31, 2006, 6.

<sup>568</sup> El-Ehwany, "Poverty, Employment and Policy Making in Egypt," 44.

economy, there are some recent signs of potential change. The first sign of change is the issuing of a new labor code. In 2003, after lengthy negotiations with trade unions, a new labor law issued aimed at increasing “labor flexibility” and encouraging privatization legalized the right to strike in return for the employees’ right to fire workers. Nonetheless, a “grandfather clause” was included exempting “current permanent workers from application of new provisions” whereby “multiple renewals of temporary work contracts are permitted” and employers are given the rights to “downsize, lower the contractual wage and/ or require employees to perform different jobs than they were hired for, for economic reasons.”<sup>569</sup>

The second sign of change is rising informalization of the labor market. This is the case since, the rate of growth in non-wage employment increased from 3.2 to 7.4 percent over the period 1988-2006.<sup>570</sup> While the conventional wisdom is that the informal sector has become a leading source of employment in Egypt in the 1990s, particularly among youths and recent entrants to the labor market, data limitations make it difficult to investigate this trend.<sup>571</sup> According to one estimate, “44 percent of nonagricultural workers had no contracts and 36 percent had no social security coverage.”<sup>572</sup>

Notwithstanding the significance of informalization trends, Egypt’s employment-based social insurance system has not been fundamentally undermined. According to a

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<sup>569</sup> Posuseny, "Globalization and Labor Protection in Oil-Poor Arab Countries: Racing to the Bottom?," 284.

<sup>570</sup> Calculated by the author from Ragui Assaad and Economic Research Forum for the Arab Countries Iran and Turkey, *The Egyptian Labor Market in an Era of Reform* (Cairo: American University in Cairo Press, 2002), 24.

<sup>571</sup> Rawlings et al., *Evaluating Social Funds: A Cross-Country Analysis of Community Investments*, 106.

<sup>572</sup> *Ibid.*, 134.

2005 study, the system continues to cover the majority, or 65 percent, of the labor force.<sup>573</sup> Public spending on pensions has not declined but, in fact, steadily increased from 0.55 percent of the GDP in 1990 to 1.52 in 1996 and 2.78 in 2005.<sup>574</sup> Further, spending on pensions eclipsed public spending on subsidies as the biggest category of social expenditures between 2000-2004. As discussed in chapter III, policy proposals for privatizing pensions through introducing a pay-as-you-go system have faced stiff resistance and failed to materialize. Accordingly, despite labor market shifts, the structural foundations of Egypt's insurance-based regime have been largely preserved.

To summarize, the change in Egypt's development strategy has not had major repercussions for the state's role as the major employer in the economy or the foundations of the prevailing insurance-based welfare regime. Although there are recent signs that Egypt's welfare regime may potentially face structural challenges, in light of the reinvigoration of the privatization program, the informalization trends in the labor market and the enactment of a new labor code, there is no evidence that these pressures have spelled its demise.

## **B. Fiscal Constraints**

According to Haggard and Kaufman, the ability of governments to maintain existing spending or to undertake new social protection commitments is "affected in the short and medium term by revenue constraints."<sup>575</sup> This section addresses the Egyptian economy's growth record, the level of revenues accruing to the state, and the deficit

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<sup>573</sup> Robalino, Whitehouse, and World Bank, *Pensions in the Middle East and North Africa: Time for Change*, 54.

<sup>574</sup> Calculated by the author from the IMF government statistics yearbook, EUI data

<sup>575</sup> Haggard and Kaufman, *Development, Democracy, and Welfare States : Latin America, East Asia, and Eastern Europe*, 191.

levels, in order to assess the impact of fiscal constraints on the retrenchment process. Despite the fact that the initial decline in welfare expenditures was associated with fiscal pressures in the late 1980s, short and medium term changes in the state's fiscal status cannot explain systemic retrenchment since the 1990s.

According to a recent assessment of Egypt's growth performance by Hanaa kheir-El-Din and Heba El-Laithy, the country's growth levels frequently fluctuated since the implementation of Economic Reform and Structural Adjustment Program (ERSAP) in 1991 with growth ranging from a low of -0.5 in 1991 to a high of 6.15 percent in 1998.<sup>576</sup> Average annual rate of real GDP growth is estimated at 4.2 percent over the period 1991-2005 with a period of slowdown marking the years between 1999 and 2003.<sup>577</sup> In fact, growth rates fell from 5.1 percent in 2000 to 3.5 in 2001 and 3.2 in 2003.<sup>578</sup> The economy's slowdown has been attributed to successive external shocks: the Asian Financial crisis, the Luxor terrorist attack, the sharp fall in oil revenues in the late nineties as well as the September 11<sup>th</sup> attacks. Since the mid-2000s, however, growth levels have recovered. During the years 2004 and 2005, the economy grew at the rate of 5 percent,<sup>579</sup> and over the next two years, Egypt's growth rate peaked to reach a record high of 7 percent in 2006 and 2007.<sup>580</sup> More recently, however, the country has witnessed the deceleration of economic activity following the onset of the global recession. Indeed, the financial crisis has been associated with rising unemployment, falling remittances, as

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<sup>576</sup> kheir-El-Din and El-Laithy, "An Assessment of Growth, Distribution and Poverty in Egypt: 1990/91-2004/05:"2.

<sup>577</sup> Ibid., 3.

<sup>578</sup> Economist Intelligence Unit, "Egypt Country Report," (2005).

<sup>579</sup> kheir-El-Din and El-Laithy, "An Assessment of Growth, Distribution and Poverty in Egypt: 1990/91-2004/05:"4.

<sup>580</sup> World Bank, "Egypt Country Brief," (2009).

well as shrinking revenues from exports, and foreign investment flows. As a result, estimates of Egypt's growth rate in 2008-2009 ranged from a low of 3.2 to a high of 4.7 percent.<sup>581</sup>

According to a recent study on *Fiscal and Public Debt Sustainability in Egypt*, in the early 1990s, "the Government initiated a remarkable fiscal adjustment that reduced the fiscal deficit from 15 percent of GDP in FY 91 to 0.9 percent of GDP in FY97."<sup>582</sup> As elaborated in chapter III, that "remarkable" improvement in the state's fiscal status was to a significant extent a product of rising external revenues during that period, as well as debt forgiveness and rescheduling by foreign donors. Although Egypt's fiscal crisis in the late 1980s was associated with a significant drop in rents from 35.3 percent of public expenditures in 1980-1985 to 27.4 between 1986-1990,<sup>583</sup> the implementation of reforms since 1991 coincided with an increase in foreign financing. Over the period between 1991-1995, the period witnessing the systematic onset of hidden retrenchment patterns, the state's fiscal status improved and external rents amounted to 46.6 percent<sup>584</sup> of state spending.

At the turn of the century, the state's fiscal status weakened significantly as revenues fell and the budget deficit widened. Whereas both tax and non-tax revenues declined between 1998/1999 and 2001/2002, expenditure levels remained largely unchanged. In fact, tax receipts declined from 15.4 to 13.6 percent of the GDP, "mainly

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<sup>581</sup> Abdel-Moneim Said, "Lessons yet to Be Learned," *Al Ahram Weekly*, September 10-16, 2009.

<sup>582</sup> Pedro Alba, Sherine Al-Shawarby and Farrukh Iqbal, "Fiscal and Public Debt Sustainability in Egypt," *Middle East and North Africa Working Papers Series*, no. 38 2004, 6.

<sup>583</sup> Richter, "The Political Economy of Regime Maintenance in Egypt: Linking External Sources and Domestic Legitimation," 190.

<sup>584</sup> *Ibid.*

the result of buoyancy in trade and domestic sales taxes,” and non-tax revenues fell from 13.7 to 12.5 percent of the GDP.<sup>585</sup> Public spending, on the other hand, remained overall constant over the same period at approximately 30 percent of the GDP, but has been increasingly directed towards domestic interest obligations and increases in the wage bill.<sup>586</sup> Thus, current expenditures increased from 22.3 to 24 percent of the GDP, while both capital expenditures and net lending declined.<sup>587</sup>

Although the decline in economic growth levels accounts for a proportion of the rise in the fiscal deficit, a recent study found that most of the deterioration in Egypt’s budget balance in the late 1990s and early 2000s was, in fact, structural. Indeed, controlling for cyclical factors that have only a transitional impact on budget trends reveals that between 1998/99 and 2002/03, the structural deficit grew rapidly from 3 to 5.8 percent of Egypt’s GDP.<sup>588</sup> According to the World Bank, by the end of 2003 public debt amounted to 126 percent of the GDP, of which an amount equal to 90 percent of GDP was owed to domestic and 36 percent to foreign sources.<sup>589</sup> More recent government statistics show relative improvement in the state’s fiscal status with external debt representing approximately 23 percent of the GDP, while gross domestic debt amounting to 79 percent.<sup>590</sup>

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<sup>585</sup> Pedro Alba, Sherine Al-Shawarby and Farrukh Iqbal, "Fiscal and Public Debt Sustainability in Egypt," 9.

<sup>586</sup> Ibid.

<sup>587</sup> Ibid.

<sup>588</sup> Ibid.

<sup>589</sup> Ibid., 1.

<sup>590</sup> Government of Egypt, *Egypt Economic Review Monthly Report*. Statistics are from the 2007-2008 fiscal year. More recent government figures from 2008-2009 and 2009-2010 indicate that the gross domestic levels has more or less maintained its level at around 81 percent of the GDP. See Omneya Ramadan, "Egypt Response to the Global Crises," (Cairo: Ministry of Finance, Macro Fiscal Policy Unit, 2009).

To what extent, have these changes in the state's fiscal status led to welfare retrenchment? In fact, the fluctuations in Egypt's economic growth and budget deficit levels do not account for systemic hidden retrenchment patterns-- through diluting subsidy benefits, converting income generation schemes and establishing of SME development under the SFD as an additional institutional layer-- all of which already started to unfold in the early nineties. Further, there is no evidence that short or medium-term changes in the state's fiscal status have had serious implications for the welfare regime. This is the case, since the significant decline in growth levels and the deterioration in the state's fiscal status in the late 1990s and early 2000s, did not result in a deepening of hidden retrenchment or an explicit overhaul of welfare institutions. Indeed, despite the growth in the Egyptian state's structural deficit, between 1998 and 2002 social allocations rose from 10.6 percent to 12.6 percent of the GDP.<sup>591</sup> The country's economic recovery during the period 2004-2007 has been associated with further expansion of social spending which averaged 17.7 percent of the GDP during these years.<sup>592</sup> In response to the hike in international food prices in 2007-2008, the state raised government employees' wages and pensions, while the ration card system was broadened to allow more households access to subsidized rice, sugar, and edible oil.<sup>593</sup> As a result, social expenditures in 2008 amounted to 19.4 percent of the GDP a record high since the onset of welfare retrenchment in the late 1980s.<sup>594</sup>

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<sup>591</sup> Calculated by the author from International Monetary Fund, *Government Finance Statistics Yearbook* (various issues).

<sup>592</sup> Calculated by the author from Ibid, Ministry of Finance, *The State Budget for the Fiscal Year 2006-2007* (Ministry of Finance, 2006).

<sup>593</sup> Ramadan, "Egypt Response to the Global Crises."

<sup>594</sup> Calculated by the author from Ministry of Finance, *The State Budget for the Fiscal Year 2007-2008* (Ministry of Finance, 2007).



To summarize, despite the fact that retrenchment is rooted in the severe economic crisis of the late eighties, economic dynamics cannot satisfactorily account for the trajectory of welfare state retrenchment in Egypt. The adoption of a free market oriented development model did not instigate structural shifts, through privatization and labor market changes, which threaten the foundations of Egypt's insurance-based welfare regime. Fluctuations in the state's fiscal status and economic growth levels, similarly, cannot be linked to patterns of hidden retrenchment. These trends highlight the need to move beyond economic dynamics and to explore political influences on the retrenchment process.

## ***II. Policy Legacies: The Moral Economy of Social Entitlements***

The dominant narrative in the literature approaches retrenchment as a political undertaking that has to be carried out against earlier policy legacies of entrenched and well-organized interests. Since studies predominantly focus on the experience of democratic states, the rationale underpinning many analyses of social policy refashioning is that policy legacies play out at the interest group level as well as the electoral arena. Alternatively, I contend that in Egypt's authoritarian political system, welfare policy legacies are best captured using the moral economy perspective.

As argued by Steffen Mau, there is a need to complement the focus on material incentives with adequate understanding of "institutionally ingrained social norms that affect people's public attitudes, choices and actions" in order to advance our knowledge

of the political economy of the welfare state.<sup>595</sup> Talking about a moral economy of social entitlements implies that welfare policies are “grounded upon a socially constituted and subjectively validated set of social norms and shared assumptions.”<sup>596</sup> I use the term “moral economy” to highlight the social embeddedness of Egypt’s political economy of welfare. More specifically, I argue that a moral economy of social entitlements, a product of earlier redistributive policies and the insurance-based egalitarian welfare regime, has given rise to social citizenship rights and influenced the retrenchment process.

E.P. Thompson’s classic work on the moral economy builds on Karl Polanyi’s thesis on the social embeddedness of economies- the notion that institutions, norms and community traditions govern the exchange process, not necessarily individual utility maximization. In Thompson’s study of the English working class, the moral economy refers to “confrontations in the market place over access (or entitlement) to necessities- essential food.”<sup>597</sup> The concept, in his formulation, is more than a “popular consensus rooted in the past and capable of inspiring action.”<sup>598</sup> Rather, it refers to a set of values or ideal model that “assigns economic roles” and “endorses customary practices,” as rooted in “a particular balance of class or social forces.”<sup>599</sup>

James Scott’s important work similarly highlights the moral economy of the peasant’s “subsistence ethic.” He explains protest patterns as responses to culturally

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<sup>595</sup> Steffen Mau, *The Moral Economy of Welfare States: Britain and Germany Compared*, Routledge/Eui Studies in the Political Economy of Welfare (London: Routledge, 2003), 29.

<sup>596</sup> *Ibid.*, 31.

<sup>597</sup> E. P. Thompson, *Customs in Common* (New York: New Press, 1991), 337.

<sup>598</sup> See Thomas Clay Arnold, "Rethinking Moral Economy," *The American Political Science Review* 95, no. 1 (2001): 85.

<sup>599</sup> Thompson, *Customs in Common*, 340.

illegitimate claims on peasant incomes that compromise peasant conceptions of social justice, obligations, and reciprocity.<sup>600</sup> Along parallel lines, Marsha Posusney's *Labor and the State in Egypt* employs the concept to explain seemingly "irrational" collective action by workers. She argues that, "workers viewed themselves in a patron/ client relationship with the state. The latter was expected to guarantee workers a living wage through regulation of their paychecks as well as by controlling prices on basic necessities, and to ensure equal treatment of workers performing similar jobs. Workers, for their part, provided the state with political support and contributed to the postcolonial national development project through their labor."<sup>601</sup> The author, however, views this moral economy dynamic as only applicable to labor and distinct from the social contract idea, which has defined analyses of the state's welfare functions in Egypt.<sup>602</sup>

In other words, the studies by Thompson, Scott and Posusney link a moral economy to a particular class, and adopt it to illuminate situations where there is "bargaining between unequal social forces in which the weaker still has acknowledged claims upon the greater."<sup>603</sup> In contrast, the moral economy idea has been more broadly used by Thomas Arnold in reference to the "nested meanings of specific constitutive and/or communal social goods", such as water in the arid American West or rice in Japan, which prevail regardless of class in modern market structured communities.<sup>604</sup>

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<sup>600</sup> James C. Scott, *The Moral Economy of the Peasant: Rebellion and Subsistence in Southeast Asia* (New Haven: Yale University Press, 1976).

<sup>601</sup> Posusney, *Labor and the State in Egypt: Workers, Unions, and Economic Restructuring*, 128.

<sup>602</sup> *Ibid.*, 17.

<sup>603</sup> *Ibid.*, 343.

<sup>604</sup> Arnold, "Rethinking Moral Economy," 93.

Along the lines of Arnold's work, I propose here the notion of moral economy to refer to collective beliefs about social citizenship entitlements and just distributional policies in Egypt's contemporary economy, which are the product of the etatist social contract policies. Indeed, social transfers in Egypt, remain constitutive of the very idea of citizenship in the polity despite the adoption of market oriented *infatih* policies since the mid-seventies and neoliberal reforms in 1991. Despite the curtailment of civil and political rights, the social contract policies aimed at instituting social citizenship in Marshall's sense of the "universal right to real income which is not proportionate to the market value of the claimant"<sup>605</sup> to significant segments of the population. Although social citizenship rights were instituted top-down and were far from being fully realized in Egypt's developing context, the resulting moral economy of social entitlements is crucial for understanding retrenchment outcomes. This is the case, since cultural norms of social citizenship have continued to define not only popular expectations of the state's role but also the boundaries of the retrenchment process. As elaborated below, the state's policies, the views of SFD beneficiaries, as well as the recent rise of protest movements and grassroots organization around social rights, reflect the existence of this moral economy and its relevance for retrenchment politics.

In fact, the ruling regime's commitment to "social pricing of bread"<sup>606</sup>, the maintenance of the subsidy system and the state's continuing role as the main employer outside agriculture, could all be seen as in line with this moral economy. Further, the

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<sup>605</sup> T. H. Marshall, *Class, Citizenship, and Social Development: Essays With an Introduction By Seymour Martin Lipset* (New York: Anchor Books, 1965), 72; Michael Lister, "'Marshall-Ing' Social and Political Citizenship: Towards a Unified Conception of Citizenship," *Government and Opposition* 40, no. 4 (2005).

<sup>606</sup> National Democratic Party, "Social Development and Poverty Alleviation Policy Paper," 41.

SFD's policies reflect the tensions between the neoliberal market-led development norms, on the one hand, and the moral economy of social entitlements, on the other. As previously highlighted in chapter III, the fund's officially adopted mandate to "develop" SMEs has continued to coexist with a welfare emphasis on multiplying their numbers rather than raising their contribution to the GDP, or improving the quality of their products. As a result, both the SFD's entrepreneurial model as well as the terms of its loans for small businesses, reflect the influence of the moral economy of social entitlements.

The entrepreneurial model advanced by the SFD encapsulates the state's attempts to redraft the social contract in the neoliberal era, within the boundaries of the prevailing moral economy of social entitlements. As a substitute to public employment, the state has controversially sought to facilitate market access by unemployed youths, through extending heavily subsidized credit under the umbrella of the SFD. Rather than expanding already existing small businesses established by the poor, the SFD's productivist initiatives have specifically targeted startup businesses in an effort to promote the "entrepreneurial culture" among inexperienced university graduates. In fact, the SFD has financed lectures at youth centers, local NGOs and universities to encourage the youth's adoption of "entrepreneurial thought," and the spread of "free market norms."<sup>607</sup>

Despite the official effort to instill "entrepreneurial values" based on the neoliberal logic of market-led development, the Egyptian authorities have insisted on providing concessionary loans on subsidized, rather than market level, interest basis. In

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<sup>607</sup> Official At the Small Enterprise Development Organization Khaled Hamdy, *Interview by Author* (Cairo, Egypt: November 23, 2005).

fact, SFD loans are extended at a subsidized 7 percent simple interest-rate in contrast to the banks rate of 16 percent compound interest-rate. This is presented in official discourse as a continuation of the state's social and developmental responsibilities, now geared towards expanding the size of the SME sector. For instance, the NDP's 2005 "New Thinking...Crossing to the Future" electoral program highlighted a plan to address unemployment through further extending credit for small businesses through the nationwide network of post offices with minimal collateral requirements and on a subsidized basis.<sup>608</sup>

Crucially as well, in a stark departure from the market logic of SME promotion the state has "drawn a distinction between intentional defaulting and unintentional defaulting or cases of businesses that are not making profit and are hence having difficulty paying back."<sup>609</sup> Indeed, the SFD's credit program has a relatively high default rate estimated at approximately 40 percent,<sup>610</sup> and the state's official line since the late nineties has been: "no imprisonment for defaulting clients."<sup>611</sup> Following a wave of defaults between 1997-1999, which led to legal action against some SFD beneficiaries and widespread criticism of the fund's policies, a humanitarian cases department was set up to reschedule and extend debt forgiveness to clients with struggling businesses.<sup>612</sup> Indeed, the state has to a significant extent absorbed small business losses in recent years.

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<sup>608</sup> The National Democratic Party, "The New Thinking...And the Crossing to the Future: The National Democratic Party's Program for the 2005 Parliamentary Elections" *Al Ahram* September 2, 2005.

<sup>609</sup> Ex-official at Social Fund for Development, *Interview by Author* (Cairo, Egypt: November 2, 2006).

<sup>610</sup> The official default rate is 7 to 10 percent, but according to a SEDDO official it is in fact close to 40 percent. Khaled Hamdy, *Interview by Author*.

<sup>611</sup> Ibid.

<sup>612</sup> Khaled El Defrawy, *Interview by Author*.

For instance, in 2006, the Central Bank extended debt forgiveness to defaulting small entrepreneurs sponsored by the SFD.<sup>613</sup> Further, the state has *de facto* guaranteed SFD loans since the late 1990s. The Egyptian Association for Cooperative Insurance (EACI)—an entity financed by the SFD and a public owned financial institution, *Al Ahly Bank*—refinances 80 percent of the value of SFD loans to banks in case of default.<sup>614</sup>

In its efforts to promote the development of the sector, the state has also assumed a hegemonic role geared towards promoting equitable social outcomes. According to one SFD publication outlining the organization's strategic goals: "support to SMEs should focus on addressing the Government of Egypt (GOE) priorities: rural development, job creation, and empowerment of women."<sup>615</sup> The social rationale for promoting small businesses has also been articulated in the recently adopted national SME strategy, which states:

"With almost 43% of Egyptians living on less than two US dollars per day, the expansion and growth of that sector will assist in bringing about significant improvements in income distribution, poverty alleviation, employment and the quality of life."<sup>616</sup>

In order to meet these social goals, the 2004 SME law established a special quota of 15 percent of public acquisitions by government ministries for small business

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<sup>613</sup> The debt forgiveness initiative was limited to 75% of the total sum owed by the defaulting small entrepreneur. It is unclear how many entrepreneurs benefited from these initiatives. Emad Alsayed, "Resolving the Crisis of 540 Families Unable to Repay SFD Loans " *Al Masry Al Youm*, July 2, 2006.

<sup>614</sup> SFD clients pay 10 L.E. for purchasing a stock in the ESACI, which charges 2 percent of loan value in return for insuring the project. Khaled Hamdy, *Interview by Author*.

<sup>615</sup> Social Fund for Development, *Small Enterprise Development Organization (SEDO): Financial and Non-Financial Services* (Cairo: Social Fund for Development, November 2005), 2.

<sup>616</sup> Government of Egypt, *National Development Strategy for Medium Small and Micro-Enterprises in Egypt* (Draft)(Cairo: Social Fund for Development, 2007), 3. There is, in other words, no emphasis on generating higher levels of productivity, innovation or competitiveness.

products. In addition, the SFD has sponsored the marketing of SME products through state owned enterprises and subsidized state-managed exhibitions, rather than providing incentives for the formation of linkages with larger private sector firms. Aside from designating lands in new industrial zones for small businesses at subsidized prices, the state has also financed the establishment of small business incubators. As part of a “comprehensive support system” for small business, the fund has financed six incubators that are managed jointly by the SFD as well as implementing NGOs.<sup>617</sup> These officially provide technical assistance, management support, as well as heavily subsidized space for start-up entrepreneurs for a period of five years.<sup>618</sup> Lastly, small business owners have continued to be exempted from income tax laws.<sup>619</sup>

Not only has the state sought to redefine its social role away from the all encompassing employer and provider to that of promoting the small business sector, but also beneficiaries have tended to construct access to SFD credit as a “citizenship based-entitlement.” As Hosny, the owner of a taxi company and son of a retired army lieutenant explained to me: “Sure I got a loan from the fund, for L.E. 25,000 but that’s

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<sup>617</sup> Egyptian Incubators Association, *Business and Technology Incubators (in Arabic)* (Cairo: EIA, 2003), 2.

<sup>618</sup> Director of the Incubators Department at the Social Fund for Development Abdel Mohsen, *Interview by Author* (Cairo, Egypt: July 5, 2006). The author visited three incubators in Mansoura, Menoufeya and Portsaid. The incubators were among the least successful SFD initiatives due to a lack of funding, trained staff, as well as bureaucratic obstacles with local level authorities that did not recognize the status of the incubator as a “public entity.” Further, the program was in transition since contracts with the Egyptian Incubators Association, which was initially in charge of managing the incubators, were not renewed.

<sup>619</sup> Although the 2005 income tax reforms aimed to level the field and initial drafts of the law did not include exemptions for the SME sector, following discussions in parliament, the Minister of Finance extended a tax break to small businesses.



my right...they owe me a job that's my right and I settled for a small loan."<sup>620</sup> In the words of another SFD beneficiary: "Getting a loan is my right, I have helped out the government by taking a loan from the fund instead of queuing up for a job."<sup>621</sup> I repeatedly encountered the same sentiment among small business owners in the course of my interviews.

Beneficiaries often also echoed their belief that subsidized SFD credit is a state obligation. According to Omar, the owner of a car accessories business whose middle class parents both worked as teachers in Libya for much of the 1970s and 1980s, the SFD is "the legitimate source of funding for my project because it is a state agency...although I had problems, I did not consider other sources of credit like the USAID funded NGOs because when I started my project it was about the time of the Ibn Khaldun problem and the high profile critique of the US policies in Egypt. This was my decision, not to approach these programs."<sup>622</sup>

Lastly, the recent surge of grass-roots initiatives and civil disobedience movements around social citizenship rights, under the umbrella of *Kefaya* (The Egyptian Movement for Change), highlights the central significance of the moral economy of social entitlements for understanding state-society relations.<sup>623</sup> The movements

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<sup>620</sup>Hosny Ebeed, *Interview by Author* (Helwan, Egypt: July 14, 2007).

<sup>621</sup> Ahmed Fathy, *Interview by Author* (Portsaid, Egypt: June 2, 2006).

<sup>622</sup>Omar Makram, *Interview by Author* (Helwan, Egypt May 23, 2006). The Ibn khaldun problem refers to controversies surrounding donor funding to NGOs in Egypt. In 2000 democracy activist Saad Eddin Ibrahim, the founder of the Ibn Khaldun research center, was prosecuted on several charges, including receiving foreign financing without government approval.

<sup>623</sup> Amr El Shobky, "The Coming Uprisings," *Al Masry Al Youm*, March 29, 2007; Mohamed Ezoz and Mohsen Abdel-Razeq, "Ten Thousand Civil Servants at the Real Estate Taxes Stage Sit-in Infront of the Council of Ministers," *Al Masry Al Youm*, December 4, 2007; Ahmed El Behery, "Open Ended Sit-in for Civil Servants at the Cairo

successfully mobilized lower middle-class constituencies including the state bureaucracy who do not have a history of collective protest around social citizenship rights. Initiatives included establishing a federation for unemployed university graduates, and an association for pensioners.<sup>624</sup> Between 2004 and 2009, the country witnessed a wave of strikes involving more than 1.5 million workers,<sup>625</sup> including civil servants at five government ministries,<sup>626</sup> calling for higher wages and bonuses. Among these, the most significant collective protest was the 11 days sit-in by 10,000 local level real-estate tax collectors demanding financial parity with tax collectors affiliated with the Ministry of Finance. The protest led to the establishment of the first independent grass-roots trade union organization in Egypt, the Union of Real Estate Tax Authority Employees (URETAE).<sup>627</sup> According to organizers, these protests reflected *Kefaya*'s focus on energizing society, linking issues related to people's lives to national demands and encouraging people to engage in civil disobedience as strategy for bringing about social

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Awqaf," *Al Masry Al Youm*, September 4, 2007; Mohamed Ezoz, "Civil Servants at the Building and Housing Cooperatives Organize a Demonstration," *Al Masry Al Youm*, July 10, 2008; Mohamed Ezoz and Mona Yasseen, "1000 Civil Servants from Social Affairs at Giza Demonstrate in Protest of Announcements by 'Al Meselhy'," *Al Masry Al Youm*, August 4, 2008; Amal Abbas and Emad El Shazly, "Protests in Front of Education Directorates on Wednesday Because of Canceling Bonuses and Sit-in in Front of the Council of Ministers " *Al Masry Al Youm* July 4, 2008; and Mohamed Ezoz, "Officials at the Real Estate Registry Threaten Sit-in Next Sunday " *Al Mary Al Youm* January 24, 2008.

<sup>624</sup> Other initiatives included the "popular movement for the defense of pensioners", and "citizens against soaring prices."

<sup>625</sup> Peters, "Whither Economic Reform?"

<sup>626</sup> These were the Ministry of Social Solidarity, the Ministry of Education, Ministry of Finance, Ministry of Awqaf (endowments), as well as the Ministry of Housing.

<sup>627</sup> The union claims that 37,000 out of the 42,000 tax collectors who are affiliated with the state-run union have switched sides. See Jano Charbel, "Head of Egypt's Only Independent Labor Union Questioned and Released," *Arab Reform Initiative* September 9, 2009.

justice.<sup>628</sup> While the long-term effectiveness and sustainability of these efforts are questionable, in light of an increasingly authoritarian political order, they highlight the centrality of the state's welfare policies and the moral economy of social entitlements for understanding ongoing political struggles in Egypt.

In sum, I have argued that the policy legacies of Egypt's statist social contract have been manifested through a moral economy of social entitlements, which has continued to influence perceptions of the state's legitimacy and citizen's rights. In order to more closely analyze how the prevailing moral economy of social entitlements and the regime's power maintenance logic impacted on the retrenchment process, the analysis next focuses on the state's relationship with the middle classes or limited income groups, the main beneficiaries of Nasser's statist social contract.

### ***III. From Civil Servants to Small Entrepreneurs: Limited Income Groups under Neoliberalism***

"Limited income groups", have been the focus of the SFD's welfare efforts in recent years.<sup>629</sup> Indeed, a recent quantitative study of 1700 SFD recipients provides a sketch of the socioeconomic background of its beneficiaries in three governorates. Almost 42 percent of beneficiaries were found to be current state employees or pensioners, versus 19 percent involved in commerce, 18 in agriculture, and 15 in crafts-

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<sup>628</sup>Founder of Kefaya Amin Eskander, *Interview by Author* (Cairo, Egypt, July 12, 2007); Coordinator of Kefaya George Ishaq, *Interview by Author* (Cairo, Egypt, July 16, 2007).

<sup>629</sup> In public discourse, limited income groups are defined as those with an annual income lower than L.E.12000 per individual (the equivalent of US \$2166) or L.E.18000 per family (the equivalent of US \$3250). Egypt's lower poverty line is specified at L.E.1116, or roughly \$US 200, while the upper poverty line is L.E. 1574, or \$284, and 19.6% live below the national poverty level according to the United Nations Development Programme, *Human Development Report: Egypt's Social Contract the Role of Civil Society*.

work.<sup>630</sup> Informal workers and the unemployed, according to the survey, represented a mere 0.8 and 1.5 percent respectively.<sup>631</sup> Because SFD loans require a state employee salary as collateral, the study also indicated that beneficiaries, who were not state employees themselves, relied on family connections or paid state employees, in order to access the loans. This trend is confirmed by my own findings in chapter V.

The majority of SFD beneficiaries, or 60 percent, are non-poor.<sup>632</sup> Further, the percentage rises in the case of urban areas, where the poor represent only 32 percent of beneficiaries.<sup>633</sup> Recipients were also found to have relatively low demographic dependency ratios,<sup>634</sup> estimated on average at 45 percent<sup>635</sup> versus the national rate of 69.8 percent.<sup>636</sup> This assessment of the socioeconomic background of SFD beneficiaries is consistent with the findings of other studies. Indeed, poverty analysis indicates that only roughly 33 percent of the urban poor and 17 percent of the rural poor are government employed.<sup>637</sup> That nearly 20 percent of the population lives below the

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<sup>630</sup> Industries and Economic Consultants (IEC), *Identifying the Constituencies Targeted by the Productive Families Projects Final Report on the Study Submitted to the Social Fund for Development* (2004), 17.

<sup>631</sup> Ibid.

<sup>632</sup> Ibid., 18.

<sup>633</sup> Ibid.

<sup>634</sup> This is an age population ratio of those typically not in the labor force to those who typically are.

<sup>635</sup> Industries and Economic Consultants (IEC), *Identifying the Constituencies Targeted by the Productive Families Projects Final Report on the Study Submitted to the Social Fund for Development* (2004), 28.

<sup>636</sup> United Nations Development Programme, *Human Development Report: Egypt's Social Contract the Role of Civil Society*, 318.

<sup>637</sup> Naglaa El-Ehwany and Heba El-Laithy, *Poverty, Employment and Policymaking in Egypt*.

poverty line of US\$284 and the average annual state employee salary is US\$1356, further reinforces my argument that the SFD's beneficiaries are predominantly non-poor.<sup>638</sup>

The bias of retrenchment processes in favor of limited income groups and university graduates could be interpreted as a continuation of the state's earlier policies aimed at co-opting the lower middle class. As elaborated in chapter II, the lower middle classes traditionally constituted an important social basis of support for the state since Nasser's adoption of Arab socialism. As argued by Wickham, "although Nasser claimed to represent the oppressed *sha'b*, or people, as a whole, a disproportionate share of state resources was channeled to urban, educated, lower middle-and middle class youth."<sup>639</sup>

The perceived strategic importance of the lower middle classes to the authoritarian populist regime stability led it to single them out for additional distributional policies. Specific entitlements for the lower middle classes included the expansion of free higher education as well as guaranteeing government employment for university graduates. The reduction of fees coupled with raising the number of students admitted to university served to create new avenues of mobility for urban lower-middle and middle class youth. Aside from the role of socialist ideology in shaping a relatively egalitarian educational system, the state's higher education policies were driven by the

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<sup>638</sup> In public discourse, limited income groups are defined as those with an annual income lower than L.E.12000 per individual (the equivalent of US \$2166) or L.E.18000 per family (the equivalent of US \$3250). Egypt's lower poverty line is specified at L.E.1116, or roughly \$US 200, while the upper poverty line is L.E. 1574, or \$284, and 19.6% live below the national poverty level according to the United Nations Development Programme, *Human Development Report: Egypt's Social Contract the Role of Civil Society*.

<sup>639</sup> Carrie Wickham, *Mobilizing Islam: Religion, Activism and Political Change in Egypt* New York: Columbia UP, 2002, 23.

regime's attempts to win popular support.<sup>640</sup> Similarly, the expansion of guaranteed public employment<sup>641</sup> following extensive nationalization efforts in 1961, has been instrumental to the emergence of a "new middle class" tied to the state. "Government officials formulating the graduate appointment policy contend that it stemmed less from a sober assessment of the state's manpower needs than from the regime's anxiety about the potential political risks of graduate unemployment."<sup>642</sup>

In Egypt's neoliberal era, the lower middle classes have been redefined as "small entrepreneurs" and became the targeted beneficiaries of SFD programs. An important qualification, however, is the fact that the state's efforts now narrowly focus on consolidating support among those elements of the lower middle classes, with *already existing* links to the state. Why has the retrenchment process served to channel resources to state-linked elements of the lower middle class?

Aside from the regime's electoral needs, which are explored in the next chapter, I contend that the key to understanding retrenchment outcomes lies in the political legacy of Egypt's moral economy of social entitlements as well as the state's power maintenance logic. These dynamics could be captured using the state in society perspective, which highlights the repertoire of interactions between the state and the mainstream Islamist social movement, the MB. As argued by Joel Migdal, Atul Kohli and Vivienne Shue, the role of the state is contested in the developing world, where state actors typically engage in struggles with social forces not only over resources but also the very

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<sup>640</sup> Ibid., 25

<sup>641</sup> The policy initially applied to all university graduates and was extended to vocational secondary school and technical institute (2 years post-secondary institutions) graduates and the policy was formalized in law no 14 of 1964 and was made permanent in law no. 85 of 1973. See Ragui Assaad, 2007.

<sup>642</sup> Wickham, *Mobilizing Islam: Religion, Activism, and Political Change in Egypt*, 29.

foundations of societies--“their norms and rules, regulations and laws, and symbols and values.”<sup>643</sup> While struggles and accommodations in the junctures between the state and social forces have resulted in integrated domination by a few strong states, the goals of penetrating and transforming society have remained elusive for most states in the developing world.

Although the MB draws support from diverse social groups, studies indicate that its backbone is the modern middle class, including the educated youths, professionals as well as the *muwazafeen* or civil servants.<sup>644</sup> Contrary to common impressions that the rise of Islamist politics has been fuelled by the poor, who witnessed the de facto dilution of their social contract entitlements. As the etatist system failed to become self-sustaining and Egypt’s population expanded, the state’s institutionalized system of entitlements has failed to keep pace with an expanding educated middle and lower middle class. Labelled by Wickham, “lumpen salariat”, or “ the army of white-collar workers struggling to maintain the appearance, if not the reality, of a middle class lifestyle,”<sup>645</sup> are among the core supporters of the MB.

As put by Bayat, the rise of political Islam reflected the “rebellion of the impoverished and morally outraged middle class”, for whom “Islamism represented an ideological package that negated all the perceived causes of their deprivation namely “economic dependency, cultural selling-out, and national humiliation (embodied in the

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<sup>643</sup> Joel Migdal, "The State in Society: An Approach to Struggles for Domination," in *State Power and Social Forces: Domination and Transformation in the Third World*, ed. Atul Kohli, Joel S. Migdal, and Vivienne Shue (New York: Cambridge University Press, 1994), 10.

<sup>644</sup> Asef Bayat, *Making Islam Democratic: Social Movements and the Post-Islamist Turn*, Stanford Studies in Middle Eastern and Islamic Societies and Cultures (Stanford: Stanford University Press, 2007), 218.

<sup>645</sup> Wickham, *Mobilizing Islam: Religion, Activism, and Political Change in Egypt*, 31.

1967 defeat to the Israelis and the Camp David Accords).”<sup>646</sup> The success of the MB’s efforts to capitalize on the economic grievances of this class and articulate their demands within wider calls for cultural authenticity and nationalist goals, could be traced to successful mobilization strategies by the movement. Rather than appealing to individual self-interest, movement organizers relied on Islamist framing utilizing “a respected social convention known as the *da’wa* (the “call” to God) to promote a radically new, activist interpretation of the Islamic faith.”<sup>647</sup> The success of this strategy among the middle classes is due to the fact that the ideological frames articulated by the MB “resonated with the life experience and broader belief system of potential recruits.”<sup>648</sup> Further, intensive small group solidarity through Islamist networks served to reinforce the new recruits commitment to a new activist subculture and create avenues through which these commitments could be realized in practice.<sup>649</sup>

Grass-roots Islamization, through the *da’wa*, did not only lead to significant gains in the social realm by MB, but also led to systematic encroachment on the state’s institutions. Islamic activism spread in civil institutions, mass media, formal education and community social services as the MB seized control of Egypt’s major professional unions: doctors, engineers, pharmacists, lawyers, dentists, commerce and college professors, as well as student.<sup>650</sup> In recent years, the ongoing struggle between the state and the movement of the MB moved beyond civil society and became increasingly manifested in a number of arenas *within* the state.

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<sup>646</sup> Bayat, *Making Islam Democratic: Social Movements and the Post-Islamist Turn*, 35.

<sup>647</sup> Wickham, *Mobilizing Islam : Religion, Activism, and Political Change in Egypt*, 15.

<sup>648</sup> Ibid., 16

<sup>649</sup> Ibid.

<sup>650</sup> Ibid., 183-189.



By the 1990s, according to Bayat, “the MB...had captured a sizable space in civil society and was beginning to permeate state institutions, including the judiciary, universities and *al-Azhar*.”<sup>651</sup> For instance, the MB’s systemic influence on judges and attorneys was evident through *hisba* or the Islamic injunction to “encourage good and forbid wrong.” *Hisba* refers to a case filed by an individual on behalf of society when the plaintiff feels that great harm has been done to religion. Aside from the infamous case of Nasr Hamed Abu Zeid, the revival of *hisba* allowed the MB to wage attacks on numerous secular intellectuals, professors, artists and journalists whom they saw as “insulting Islam.” In 1995 alone fifty-four *hisba* cases were filed while another eighty were filed between 1996 and 1998.<sup>652</sup> Thus, “judges and attorneys used their position not only to alter the judiciary system, but also to spread Islamism to the rest of society and other official institutions.”<sup>653</sup>

Similarly, public schools became sites of Islamist activism and friction between the MB and the state. “A ministry report to Parliament in 1993 revealed that at least ninety schools and 300 teachers had links to Islamist groups.”<sup>654</sup> Further, according to a 1997 study of 354 “basic education” teachers, 86 percent of the participants adhered to a fundamental Islamic dictum: “religious legacy has answers to all of the problems that Egyptian society is facing.”<sup>655</sup> Indoctrination by teachers in public schools and increasing numbers of veiled female students triggered struggles between the state and Islamist activists.

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<sup>651</sup> Bayat, *Making Islam Democratic: Social Movements and the Post-Islamist Turn*, 143.

<sup>652</sup> *Ibid.*, 171-172.

<sup>653</sup> *Ibid.*, 171.

<sup>654</sup> Rawz al-Yusif, May 10, 1993, pp 157-8 cited in *Ibid.*, 170.

<sup>655</sup> Nuwir, *al M’alimun wa al-siyasa fi Misr*, pp 157-58 cited in *Ibid.*, 171.

Lastly, *al-Azhar*, Egypt's prestigious Islamic university and premier religious authority witnessed activism by radical scholars with ties to the MB. Their revival of the Scholar's Front, a professional association for *al-Azhar* employees, which demanded greater autonomy for *al-Azhar* and contested official interpretations of Islam, constituted an important development in the state's struggle with Islamist forces. This is the case as the front "represented the type of institution that lay on the fault-line between civil society and the state, from which social movements might influence state machinery."<sup>656</sup>

Although the Egyptian state increasingly assumed a "secularreligious" character, as Mubarak's regime strived to maintain its hold on power, authorities have struggled to tame the MB's influence within its institutions. While the state strived to accommodate calls for a greater role for religion in society and emphasize its "religious" credentials, in order to preserve its legitimacy, the growing penetration of the MB in its key agencies has been perceived as a regime security threat. Indeed, crackdowns aimed at curtailing MB influence within the state's trenches, or among bureaucrats with the mandate to administer state rules, have intensified in recent years. For instance, the state amended the *hisba* law, allowing only the prosecutor general to file such cases, in order to limit Islamist activism through the judiciary. Similarly, vocal criticism by the "scholars front", a group linked to the brotherhood at *Al-Azhar*<sup>657</sup> was met by state crackdown. Following the appointment of El Tantawi as the grand Imam of *al-Azhar*, the group was officially dissolved and its secretary general was imprisoned. Growing radicalism on the *Azhar* campus, where student activists affiliated with the brotherhood organized military style

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<sup>656</sup> Ibid., 170.

<sup>657</sup> Salah Eissa, "A Doctrinal Academy Expert in Political Statements," *Al Masry Al Youm*, June 7, 2008.

exercises in 2005, has renewed the state's security concern with the movement's penetration of this important state institution<sup>658</sup> and seems to have fuelled a wide crackdown on the MB in recent years. Along parallel lines, the Education Ministry officially required parental permission for secondary schoolgirls to wear the *hijab*<sup>659</sup> and over the period 1993-1995, more than 1000 Islamist teachers were arrested in an attempt to limit MB influence in schools. Despite the regime's questionable secular credentials, the state has also refused to allow veiled anchors on public television for fear of officially condoning *hijab*, which is seen by some as a symbol of MB influence.

Nonetheless, strategies of increased control and attempts to limit the MB's influence within the state have had little success in the context of the increasing religiosity of Egyptian society in recent years. Patterns of retrenchment highlight the regime's attempt to preserve the loyalty of its bureaucracy, in the face of deepening influence by the MB, through co-opting them. Growing MB domination of segments of the state that directly engage with society has triggered attempts by power holders to exercise both greater state control, as well as consolidate support among these groups. In this context, the state's reorientation of its social protection resources to benefit state-linked middle and lower middle classes constitutes an attempt to not only co-opt groups that have suffered losses in their living standards but also maintain the state's coherence.

#### **IV. *Hidden Changes in Egypt's Welfare Regime***

The preceding discussion has focused on explaining *why* retrenchment processes have been geared towards consolidating support among state-linked middle and lower

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<sup>658</sup> Gamal Essam El-Din, "Shura Blasts Al-Azhar Demonstrations" *Al Ahram Weekly*, February 7-13, 2008.

<sup>659</sup> Geneive Abdo, *No God but God: Egypt and the Triumph of Islam* (New York: Oxford University Press, 2000), 181.

middle classes in Egypt. This section seeks to shed light on *how* the retrenchment process has unfolded or why retrenchment has taken hidden forms. As elaborated in chapters II and III, retrenchment in Egypt has led to the dilution of subsidy benefits, shifts in income generation schemes' access rules, and institutional layering, represented by the addition of SME promotion as a new welfare institution and the parallel set-up of the SFD as a targeted production oriented social protection organizational track.

The record of welfare regime change in Egypt since the 1990s reflects dynamics of bounded change within the prevailing trajectories. In other words, welfare institutions have remained but have been adapted to varying degrees to the benefit of limited income groups. This pattern of retrenchment has had serious consequences for the accessibility of welfare institutions by the poor. I argue that hidden patterns of retrenchment could be attributed to: the prevailing moral economy, the nature of power relations within the ruling regime, the size of program beneficiaries, as well as resistance from within the state to the SFD's original mandate of restructuring the welfare regime towards selective production oriented support.

#### **A. Dilution of Benefits**

As elaborated in chapter III, despite over four decades of economic liberalization Egypt's historically extensive subsidy system has been maintained but diluted through coverage of fewer and lower-quality items. Contrary to neoliberal prescriptions to adopt explicit targeting mechanisms for the subsidies and eventually substitute in-kind subsidies with cash transfers for the poor,<sup>660</sup> the system has been preserved. Retrenchment, through

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<sup>660</sup> World Bank, *Egypt: Alleviating Poverty During Structural Adjustment*, World Bank Country Study, 1991 (Washington D.C: World Bank, 1991). World Bank, *Egypt toward a*

dilution of benefits within the prevailing subsidy system has, indeed, allowed the state to periodically reverse subsidy cuts, in response to hikes in international food prices or social pressures, without incurring the costs of setting up new mechanisms for social protection. Opting for the maintenance of the subsidy system, further, has allowed the state to avoid the technical question of periodically adjusting non-contributory cash transfer amounts according to inflation levels. Aside from questions of costs and technical capacity, I argue that political forces are behind this pattern of retrenchment. Crucially, the state's strategy has enabled the state to cut subsidy costs while avoiding the question of excluding the middle classes through overhauling the universal subsidy system. This pattern of retrenchment is the outcome of two important dynamics. The first dynamic is the prevalence of the previously discussed moral economy of social entitlements, which has tied the state's legitimacy to social provision, and the regime's concern with its stability given Egypt's history of food riots. The second related dynamic is the concentrated distribution of power among political institutions.

Indeed, the attempt to slash food subsidies in 1977<sup>661</sup> was widely perceived as a violation of citizenship entitlements and led to large scale violent rioting that forced the state to immediately reverse its policies. Spontaneously started by the urban poor, the riots created a "bandwagon effect" whereby students, trade unions and organized groups of the

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*More Effective Social Policy: Subsidies and Social Safety Net* (Washington, DC: World Bank, 2005).

<sup>661</sup> In compliance with IMF recommendations to cut the budget deficit, the government reduced subsidies on gas, beer, fine flour, unbroken rice, granulated sugar, French bread, macaroni in 1977.

middle classes joined in an effort to orchestrate more coherent opposition.<sup>662</sup> As Seddon and Walton suggest, riots are typically triggered by perceived violations of entitlements, as defined by the prevailing moral economy of social entitlements and entail organized action by groups in civil society. “Popular protest is fashioned in civil society by groups struggling, on the one hand, with the exigencies of redistributive state policies and attempting, on the other hand, to mobilize on the basis of culturally defined rights.”<sup>663</sup> The size and the scale of protests in 1977, which led to an official death toll of 77 individuals in Cairo alone, has led to the state’s avoidance of confrontation of society through the gradual dilution of subsidies rather than their elimination.<sup>664</sup> As put by Waterbury, following the riots, “It has become a given of Egyptian politics that the bread subsidy cannot be touched except at the peril of the regime.”<sup>665</sup>

In the spring of 2008, in the wake of subsidized bread shortage and soaring inflation, Egypt experienced another major wave of violent rioting. The riots came against the backdrop of a two years strike movement by workers since 2006 and calls for a nation-wide protest on April 6<sup>th</sup> against soaring prices.<sup>666</sup> Although this time the death toll of the riots was three civilians, the damage to the regime’s image was significant as the police’s violent tactics were widely publicized. Driven by its legitimacy and stability concerns, the

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<sup>662</sup> There is a debate about who started the riots of 1977 between those who focus on the role of urban poor and those stressing the role of students and workers. See Hussein Abdel-Razek, *Egypt on 18 and 19 January* (Cairo: Shohdy, 1985).

<sup>663</sup> John Walton and David Seddon, *Free Markets & Food Riots: The Politics of Global Adjustment*, Studies in Urban and Social Change (Cambridge: Blackwell, 1994), 54.

<sup>664</sup> For a discussion of subsidy reductions in the 1980s see, Robert Springborg, *Mubarak's Egypt : Fragmentation of the Political Order* (Boulder: Westview Press, 1989).

<sup>665</sup> Waterbury, *The Egypt of Nasser and Sadat: The Political Economy of Two Regimes*.

<sup>666</sup> Joel Benin, "Underbelly of Egypt's Neoliberal Agenda," *Middle East Report Online* (2008); *Al Masry Al Youm*, "Anger Mounts in Egypt Due to Rocketing Prices, Inflation Hits 12.5," March 13, 2008; and *Al Masry Al Youm*, "Political Forces and Citizens Divided on Call for Strike Today," April 6, 2008.

regime's response to the latest riots has been to raise wages and order the army to take over the production and distribution of bread.<sup>667</sup> These developments came on the heels of earlier measures aimed at expanding the subsidy system coverage, by issuing food ration cards for an additional 15 million people, increasing the number of subsidized items and banning rice exports, in response to the hikes in international food prices in 2007-2008.

The second dynamic shaping retrenchment through dilution of subsidies is the concentration of power within the ruling regime. This centralization raises the stakes of fundamentally restructuring the subsidy system. Scholars of the welfare state frequently highlight the debilitating impact of internally cohesive and ideologically distant veto players on reform initiatives for neoliberal reformers.<sup>668</sup> In contrast, the case of Egypt demonstrates the fact that concentration of power may *impede* rather than facilitate policy change. Despite recent constitutional reforms in 2007, aimed at expanding the roles of parliament and the prime minister, the configuration of power within the regime has remained heavily concentrated in the hands of the President<sup>669</sup>, who holds the powers to dissolve the assembly as well as appoint or dismiss the prime minister. In other words, the nature of power relations within Egypt's political institutions renders "blame avoidance"

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<sup>667</sup> "Food and the Poor" The Economist Online April 17, 2008.

[http://www.economist.com/world/international/displaystory.cfm?story\\_id=11049284](http://www.economist.com/world/international/displaystory.cfm?story_id=11049284)

Accessed on September 15, 2008.

<sup>668</sup> George Tsebelis, *Veto Players: How Political Institutions Work* (Princeton: Princeton University Press, 2002). Also, in developing countries Huber, "Globalization and Social Policy Development in Latin America."

<sup>669</sup> Muciele Dunne and Amr Hamzawy Nathan J Brown, "Egypt's Controversial Constitutional Amendments," in *Carnegie Endowment for International Peace* (2007).

more difficult,<sup>670</sup> a fact that has been aptly demonstrated by the protesters tearing down of billboard images of the president in the 2008 food riots.<sup>671</sup>

## **B. Conversion**

Another way that welfare institutions in Egypt have been restructured is through processes of conversion, whereby programs initially designed to address social risks among certain groups have been redirected towards others. As discussed in chapter II, one of the major programs under the umbrella of the Ministry of Social Solidarity (MOSS) is the productive families' income generation scheme. The Productive Families Program (PFP) is administered by the Productive Families Association (PFA), which has served as a major implementing partner of the SFD's micro-credit initiative between 1993 and 2001. As detailed in this section, the program witnessed a process of institutional conversion, whereby targeted beneficiaries have been redefined in recent years.

Although budget allocations to the PFA have been modest, in recent years, the program has been financed by the SFD and various independent funds.<sup>672</sup> In fact, donors financed two-thirds of the schemes sponsored by the PFA in the late 1990s. The SFD's partnership with the PFA, has facilitated the redefinition of the program to new constituencies or its institutional conversion without explicit restructuring in the organization and management of the PFP. Indeed, the original beneficiaries are

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<sup>670</sup> For more on this co-relationship see Pierson, *Dismantling the Welfare State?: Reagan, Thatcher, and the Politics of Retrenchment*.

<sup>671</sup> Tearing down images of the president is considered a crime under Egyptian law. Twenty-two demonstrators were recently handed down 3-5 year jail sentences.

<sup>672</sup> Esmat Rushdi Director of the Department of Productive Families and Vocational Rehabilitation at the Ministry of Social Solidarity, *Interview by Author* Cairo, Egypt, April 13, 2006.



marginalized groups: graduates of rehabilitation centers and prisons, victims of natural disasters, poor female headed households, widows, the disabled, recipients of social assistance or those with an income less than L.E.100. With the introduction of a public employee's salary, as official collateral requirement for PFP credit,<sup>673</sup> beneficiaries are no longer vulnerable low-income households. As the head of the PFP explained to me, "the project used to target the destitute and the uneducated, specifically, graduates of vocational training, prisons, widows, divorcee women with no sources of income...etc now due to socioeconomic changes the project targets the educated and those with low income levels, specifically the youth, workers laid off after privatization and civil servants."<sup>674</sup>

In recent years, the state sought to restructure the program's goals, in order to bring it in line with productivist notions of welfare as market access, a process that did not take root on the ground. Indeed, government documents officially define the PFP's goals as "job creation, economic growth and spreading production as a social value," rather than the original aim of promoting "leisure time activities" that supplement household income.<sup>675</sup> In the course of my fieldwork, it was clear that the redefinition of program goals did not materialize in reality. In fact, when asked about marketing PFP products and promoting linkages with private businesses, the program's director explained to me that, the micro-businesses funded by the PFP function *outside* the market. According to her, "we steer them [i.e. program beneficiaries] away from commercial projects and encourage PFP credit beneficiaries to market their products only

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<sup>673</sup> Ibid.

<sup>674</sup> Ibid.

<sup>675</sup> Ministry of insurance and Social Affairs, *The National Project for Productive Families* (Cairo: Dar El Hilal), 17.

through our state-run exhibitions”<sup>676</sup>, a view at odds with the new emphasis on market access and growth goals. Aside from the role of path dependence and the enduring culturally constructed meanings of institutions, as elaborated in Section C, the persistent *non-market orientation* of the PFP reflects the failures of the state’s SME promotion efforts under the umbrella of the SFD.

Retrenchment through institutional conversion could be attributed to the facts that initial PFP beneficiaries are not only un-organized but also relatively small in number. Indeed, studies indicate that in the absence of meaningful party contestation the urban and rural poor have remained largely politically unorganized.<sup>677</sup> Although Egypt’s poor have relied on non-confrontational strategies of “quiet encroachment”<sup>678</sup> and occasionally riots, they have been unable to block the conversion of programs and the consequent de facto privatization of risks to their income security. Unlike the case of bread, which has been at the core of the moral economy of social entitlements, income generation schemes have remained marginal to popular imagination of citizenship. Further, since the opposition MB draws support from the middle classes rather than the poor, the latter have been deemed politically insignificant from the regime’s power maintenance logic. Lastly, despite the fact that the number of beneficiaries rapidly increased by 1031 percent over the period from 1981-1982 to 1994-1995 alone, the program remained relatively

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<sup>676</sup> Esmat Rushdi Director of the Department of Productive Families and Vocational Rehabilitation at the Ministry of Social Solidarity, *Interview by Author* Cairo, Egypt, April 13, 2006.

<sup>677</sup> Kurtz, "Understanding the Third World Welfare State after Neoliberalism: The Politics of Social Provision in Chile and Mexico."

<sup>678</sup> See discussion in Bayat, "Activism and Social Development in the Middle East.", Bayat, *Street Politics: Poor People's Movements in Iran*.

small, with an estimated 2 million beneficiaries by 2008<sup>679</sup> out of a population of 72.5 million.<sup>680</sup>

### C. Layering

The phenomenon of institutional layering has been commonly associated with the attempts of neoliberal reformers to work around resistance by social groups, through adding new institutions instead of dismantling the old. Schickler argues that, institutional layering may involve the creation of novel institutions by reformers who “lack the support, or perhaps the inclination, to replace preexisting institutions established to pursue other ends.”<sup>681</sup> Indeed, institutional layering can involve “the partial renegotiation of some elements of a given set of institutions while leaving others in place,”<sup>682</sup> or more explicitly, “the creation of a “parallel” or potentially “subversive” institutional tracks.”<sup>683</sup> The introduction of an institutional layer is considered to “not push developments along the same track, as suggested by increasing returns arguments,”<sup>684</sup> but rather create a pathway for change. As illustrated by Steven Teles’s argument on the development of privately funded pensions alongside the public system, institutional layering is considered

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<sup>679</sup> National Democratic Party, “Social Development and Poverty Alleviation Policy Paper” (Paper presented at the National Democratic Party Annual Congress, Cairo, 2008), 42.

<sup>680</sup> United Nations Development Programme, *Human Development Report: Egypt's Social Contract the Role of Civil Society*, 318.

<sup>681</sup> Eric Schickler. *Disjointed Pluralism: Institutional Innovation and the Development of the US Congress*. Princeton: Princeton UP, 2001, 15. Cited in Pierson, *Politics in Time : History, Institutions, and Social Analysis*, 137.

<sup>682</sup> Thelen, "How Institutions Evolve: Insights from Comparative Historical Analysis," 225.

<sup>683</sup> Pierson, *Politics in Time: History, Institutions, and Social Analysis*.

<sup>684</sup> Thelen, "How Institutions Evolve: Insights from Comparative Historical Analysis," 226.

to affect the interests of beneficiaries and influence the overall trajectory of social security.<sup>685</sup>

The official establishment of the SFD as an “autonomous” agency outside the state structure and its promotion of SME development, as a parallel institutional track to state employment and the insurance-based pension system, represents a form of institutional layering. As discussed in chapter III, institutional layering was intertwined with external dynamics in Egypt’s case. Indeed, the SFD’s establishment was driven by donors, who envisioned the fund as the backbone of a reformed welfare regime with a targeted subsidy system. Official resistance to the SFD’s objectives, due to the state’s efforts to maintain support among limited income groups, has *de facto* rendered it an added institutional “layer” within the prevailing welfare regime.

Despite the SFD’s introduction of targeted productivist welfare, its impacts on the overall trajectory of Egypt’s welfare regime have been limited. Although, since 2005, the MOSS has piloted a new geographic targeting mechanism, for allocation of education, health and housing support to poor households<sup>686</sup> in two impoverished villages, the initiative is not linked to the SFD and is not based on the fund’s poverty map. Further, the MOSS targeting initiative has faced stiff resistance from within the state<sup>687</sup> and at the

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<sup>685</sup> Stephen Teles “The Dialectics of Trust: Ideas, Finance and Pensions Privatization in the U.S and U.K.,” paper presented at the Max Planck Institute Conference on Varieties of Welfare Capitalism, Cologne, June, 1998 Cited in Pierson, *Politics in Time : History, Institutions, and Social Analysis*, 137.

<sup>686</sup> National Democratic Party, "Social Development and Poverty Alleviation Policy Paper" (Paper presented at the National Democratic Party Annual Congress, Cairo 2008).

<sup>687</sup> Hanaa Kheir El-Din, Professor of Economics and Head of the Egyptian Center for Economic Studies, *Interview by Author* Cairo, Egypt, December 11, 2006. Other state agencies, such as the influential Ministry of Economic Development, the successor to the Ministry of Planning, have resisted the new MOSS efforts to develop a new targeting

time of writing did not gain momentum. In contrast, there is actually evidence that the universal subsidy system has been strengthened. As explained in chapter III, since 2005, the state has raised its expenditures on subsidies, expanded quasi-universal food subsidy system to incorporate more beneficiaries as well as cover more items. Further, my analysis of the SFD's mission reveals that targeting techniques that undermine universal redistributive programs benefiting the middle classes and the prevailing moral economy, have been politically unfeasible.

As demonstrated by the PFP's persistent non-market oriented operations, the fund's impact on the overall orientation of Egypt's welfare regime has also been curtailed. I argue that this is due to its failure to develop a dynamic small enterprise sector. Although officially constituting 99.7 percent of all private businesses, SMEs in Egypt contribute only 8 percent of manufacturing value added and a mere 4 percent of exports.<sup>688</sup> With limited marketing channels, weak linkages with larger firms as well as persistent problems of access to adequately priced inputs, finance and technology the sector's economic performance has remained overall weak. In the absence of viable technical assistance, SFD financed start-up businesses have been particularly vulnerable to defaulting, estimated at an incidence rate of 40 percent, and often bankruptcy. Further, as highlighted in the previous chapter, the state's policies reflected unresolved tensions between the welfare and developmental logics of promoting small businesses in Egypt. As a result, my interviews reveal that, although beneficiaries often constructed SFD loans as distributive entitlements or a continuation of the moral economy, less well off

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map and designate subsidy allocations to individual households based on their specific needs.

<sup>688</sup>Government of Egypt, *National Development Strategy for Medium Small and Micro-Enterprises in Egypt (Draft)* (Cairo: Social Fund for Development, 2007).

households did not view SFD financed businesses as credible alternatives to public employment. For instance, according to *hajja* Fatma, a widower recipient of a micro-business loan from the SFD, having either of her informally employed university graduate children sign up for loans from the SFD's Small Enterprise Development Organization (SEDO) would eliminate their chances at public employment and is hence risky to the long-term income security of the household.<sup>689</sup>

## ***V. Conclusion***

This chapter has argued that the process of hidden retrenchment has been influenced by Egypt's policy legacy of a moral economy of social entitlements and the regime's power maintenance logic, as shaped by its conflict with the MB. Notwithstanding the fact that welfare retrenchment is rooted in the accumulation crisis facing the state, I have argued that political, rather than economic, dynamics have played a crucial role in shaping retrenchment outcomes. Indeed, the shift in the state's development strategy and fluctuations in its fiscal status, cannot entirely account for hidden retrenchment in Egypt. Rather, I contend that the regime's quest to maintain support among the middle classes in the face of widening support for the MB has served to orient welfare-restructuring reforms to the benefit of limited income groups. As for the institutional patterns of dilution, conversion and layering, they have been attributed to the prevailing moral economy, the nature of political institutions, the number of program beneficiaries as well as the state's resistance to full-fledged neoliberal reform initiatives.

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<sup>689</sup>Recipient of Social Fund for Development Micro-enterprise Loan *Hajja* Fatma, *Interview by Author* (Portsaid, Egypt: May 31, 2006).

## **Chapter V**

### **The Micro-Politics of Retrenchment: Power, Space and Targeting in Egypt**

The establishment of the Social Fund For Development (SFD) and evolution of its mission have facilitated ‘hidden’ retrenchment in Egypt’s insurance-based welfare regime. The previous chapter demonstrated that this process of retrenchment was primarily molded by the regime’s power maintenance logic, within the context of its ongoing struggle with the Muslim Brotherhood, as well as the prevailing moral economy of social entitlements. The purpose of this chapter is to more narrowly explore political influences on the SFD’s small and micro-business credit programs, the main field of its operations. I use the case of the SFD as a vehicle for understanding the micro-politics of retrenchment in the case of targeted and discretionary programs, which are upheld in neoliberal discourse. More specifically, I focus on three central aspects of the micro-politics of retrenchment under the SFD. These are: intra-state struggles, which served to establish eligibility criteria for SFD funding on the ground, conflicts over both mappings and definitions of poverty, as well as political dynamics influencing spatial allocations of SME credit.

What are the dynamics that shaped the development of the SFD’s targeting mechanism? And what are the influences on its spatial distributional patterns? I contend that struggles between the SFD and its implementing partners namely Governmental NGOs (GNGOs) and public banks have served to define eligibility criteria for micro and small business credit. These intra-state agency struggles were instrumental in restricting

access to limited income groups and higher elements of the middle classes, an outcome in line with overall regime interests. Further, poverty definitions and mappings, as revealed by the experiences of the SFD, are politically contentious exercises influenced by the state's perceived security interests rather than technical capacity or international organizations. Lastly, multivariate regression analysis shows that overall both poverty and unemployment levels have influenced the SFD's spatial allocation of small and micro-loans in the 2005-2006 period to a *lesser* extent than political variables. On the one hand, the Small Enterprise Development Organization (SEDO)'s allocations were significantly influenced by the ruling National Democratic Party (NDP)'s performance in parliamentary elections. On the other hand, micro-credit allocations by the Community Development Program (CDP) reflected a contrasting pattern of penalizing governorates with signs of Muslim Brotherhood support, as manifested by number of nominations in the 2005 elections as well as nominations and wins in the 2000 elections.

Indeed, the choice of targeting mechanisms is quintessentially a political economy problem: it involves the selection of "instruments for redistributing resources in society and for determining levels of social expenditure."<sup>690</sup> Although political processes that determine targeting mechanisms and the choice of beneficiaries have serious implications both for the state's relationship with its citizens as well as its legitimacy, the subject has not been at the forefront of social protection analysis. While studies point to the "paradox of targeting"<sup>691</sup> or the tendency for more pro-poor targeting to be politically unsustainable, social protection discourse has continued to be couched in apolitical,

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<sup>690</sup>Thandika Mkandawire, "Targeting and Universalism in Poverty Reduction," *Poverty In Focus* (2006), 4.

<sup>691</sup>For a discussion see ———, "Targeting and Universalism in Developing Countries," in *United Nations Economic and Social Council Meeting* (New York: 2005).



technocratic terms. Thus, much of the discussion revolves around the efficiency of targeting tools and is framed around the so-called “twin errors” of under coverage or exclusion of the poor (type I) and leakage to non-deserving groups (type II).<sup>692</sup>

The ascendancy of neoliberal ideology has been associated with fundamental shifts in both welfare-policy frameworks as well as access rules by citizens. As welfare states were transformed into workfare states, “many social welfare policies have been redesigned to narrow the scope of recipients by targeting benefits e.g. through means tests, income tests, status characteristics and behavioral conditionality.”<sup>693</sup> The development of efficient targeting mechanisms has been of key importance to the operations of Social Funds (SFs), which were originally set up as safety nets specifically designed to alleviate the transitional effects of Structural Adjustment Programs (SAPs) on the “new poor” in the developing world. In recent years, the question of targeting has become pressing as SFs assumed a permanent character and became viewed as effective “tools for reaching populations that public investment programs have historically underserved.”<sup>694</sup>

In the case of the Egypt’s SFD, its transformation into a permanent entity mandated to “lead and coordinate development efforts in the small and micro-enterprise sector”<sup>695</sup> has brought to the foreground the question of targeting due to two important sets of reasons. Firstly, the welfare logic of the national development strategy for SMEs,

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<sup>692</sup> See David Bigman and Hippolyte Fofack, "Geographical Targeting for Poverty Alleviation: An Introduction to the Special Issue," *World Bank Economic Review* 14, no. 1 (2000).

<sup>693</sup> Mkandawire, "Targeting and Universalism in Poverty Reduction," 3.

<sup>694</sup> Rawlings et al., *Evaluating Social Funds: A Cross-Country Analysis of Community Investments*, 51.

<sup>695</sup> Social Fund for Development, *Multi-Donor Review of the Social Fund for Development: Final Report*, 4.

formally adopted by the SFD, emphasizes this sector's promotion as a mechanism for poverty alleviation and employment creation.<sup>696</sup> Secondly, the SFD's new mandate has positioned SEDO as a direct lender to small entrepreneurs rather than an apex organization extending credit through independent intermediaries (such as banks). Given that SEDO's operations constitute over 50 percent of the fund's portfolio, its targeting mechanism has thus become an issue of critical importance.

The chapter begins by presenting an overview of the SFD's targeting mechanism, which combines both sociological criteria as well as geographical priorities, based on poverty and unemployment indices. Next, in section II, I analyze struggles between the SFD, on the one hand and GNGOs as well as state-owned banks, on the other, which helped define credit eligibility requirements on the ground. In section III, I present the evolution of the SFD's geographic targeting tools, analyze its politics of mapping and critically assess the fund's spatial distributional instruments. Drawing on evidence from the field, I next explore the beneficiary selection process by NGOs and banks in section IV. Lastly, in sections V and VI, I develop a statistical model to analyze spatial allocation patterns of SFD loans and interpret the political economy of their distribution.

### ***I. The SFD's Targeting Mechanism***

According to a recent report on SFs, the three pillars of poverty targeting mechanisms are: "(a) geographic targeting; (b) the menu and eligibility criteria;<sup>697</sup> and (c)

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<sup>696</sup> Government of Egypt, *National Development Strategy for Medium Small and Micro-Enterprises in Egypt* (Draft) (Cairo: The Social Fund for Development, 2007).

<sup>697</sup> Eligibility is commonly based on the socio-economic characteristics of communities. In the cases of programs tailored for individuals or households, specific societal categories such as, female-headed households are prioritized. Further, beneficiary selection is based on individual assessment (i.e. staff interview applicants and evaluate their income levels, social conditions...etc) or self-selection.

an inclusive and participatory micro-project identification and implementation process.”<sup>698</sup> In the case of the SFD, its programs officially utilize a targeting methodology combining sociological and spatial criteria. In other words, allocation of funds is based on social characteristics as well as geographic priorities identified on the bases of composite poverty indicators and an unemployment index.<sup>699</sup> Constituencies prioritized for micro-and small business loans are social groups the state has considered to be particularly vulnerable during the country’s transition to a free market development model. These include: unemployed university graduates, laid-off workers and female-headed households.

Microfinance lending, which originally fell under the SFD’s CDP and was designated a separate sector in 2004, has been undertaken by partner NGOs<sup>700</sup> and guided by a composite *poverty* index.<sup>701</sup> Three poverty maps were commissioned by the SFD during the course of its operations in 1992, 1996 and finally in 2006.<sup>702</sup> While the earlier

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<sup>698</sup> Julie VanDomelen, "Reaching the Poor and Vulnerable: Targeting Strategies for Social Funds and Other Community-Driven Programs," *Social Protection Discussion Paper* 711 (Washington, DC: The World Bank, 2007), iii.

<sup>699</sup> As detailed below while CDP adopted the poverty index, SEDO initially relied on the unemployment index to guide its operations and a combined index of both poverty and unemployment was used by the Public Works Program (PWP).

<sup>700</sup> As elaborated in chapters two and three the SFD serves as a financial intermediary between the donors who fund its operations, and NGOs as well as banks, which implement its micro-credit and small enterprise development programs.

<sup>701</sup> The 1995 Annual Report of the SFD states that the CDP is guided by Nader Fergany’s map. In the course of fieldwork, the researcher was able to obtain a copy of this map. However, the SFD refers to a very different version of the map in its 1995 report as Nader Fergany’s and the official map guiding the fund’s operations. According to the *Multi-Donor Review Report II* (2004) and a (1999) World Bank report, the CDP has continued to be officially guided by the “original” poverty index. For the purposes of the analysis here the 1996 poverty map will be treated as the SFD’s original poverty map.

<sup>702</sup> A study by Heba El-Laithy seems to refer to a fourth map for the SFD, which was developed in the mid-1990s. The indices cited are substantially different from those published by the SFD in its 1995 annual report as well as Nader Fergany’s 1992 map.

maps focused on variations across governorates, sub-divided into rural and urban, the most recent ranks local neighborhoods at the national level, based on household expenditure data. The shift in targeting reflects the fund's adoption of concentrated operations, based on Local Area Development (LAD) principles, apparently designed to better showcase the fund's activities in light of declining financing.<sup>703</sup>

As for the Small Enterprise Development Organization (SEDO), its operations through public banks were initially guided by an index ranking governorates on the basis of *unemployment* levels. In more recent years, however, the program has moved towards a more vaguely defined set of targeting criteria. According to a 2004 Multi-Donor Review Report, "SEDO allocates funds for lending services based on several indexes [sic] of governorates such as; the poverty index, the unemployment index; the illiteracy/education index; the human development index; the absorptive capacity in the governorates. The absorptive capacity of the governorate is worked out with the contribution from the Regional Office Managers who quantify various factors such as: result of investment opportunity studies; size of contracts with financial intermediaries; funding position of the intermediaries, etc."<sup>704</sup> Nonetheless, in an interview with the head of SEDO's marketing and monitoring sector, he argues: "there was no deliberate effort at targeting the poor through SEDO loans but we ended up with 37 percent recipients below the poverty line."<sup>705</sup> Although the program has continued to be officially geared towards

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Due to lack of information on this map, I have opted to exclude it from the analysis. See, El-Laithy, "Evaluating the Social Fund for Development Programs to Alleviate Poverty".

<sup>703</sup> Hani Attallah Ex-SFD Official, *Interview by Author* (Cairo, Egypt: October 19, 2005).

<sup>704</sup> Social Fund for Development, *Multi-Donor Review of the Social Fund for Development: Final Report*, 28.

<sup>705</sup> Head of SEDO Marketing and Monitoring Sector Raafat Abbas, *Interview by Author* (May 11, 2006).

job creation<sup>706</sup>, SEDO's targeting criteria have arguably become less transparent in recent years. In fact, the author is not aware of a SEDO targeting map based on the criteria mentioned in the donor report.

The next sections critically analyze the dynamics that have shaped the development of the SFD's targeting mechanism. In section II, I explore the micro-level institutional struggles that have shaped eligibility criteria for loans on the ground. This is followed by an analysis of the politics of poverty mapping in section III and a discussion of the beneficiary selection process, based on qualitative evidence from the field, in section IV.

## ***II. Defining Eligible Groups***

Adopting a disaggregated analytical approach to the state sheds light on the important impact of intra-state struggles on the definition of constituencies eligible for SFD funding. I argue that struggles between the SFD, on the one hand, and GNGOs as well as state-owned banks, on the other, helped to facilitate credit access by limited income groups, or state-linked elements of the middle classes, to the disadvantage of the poor.

As a matter of fact, the SFD initially stipulated that beneficiaries surrender their entitlement to state employment and not be listed with Ministry of Manpower registry of applicants to public sector jobs. While this stipulation remained an official condition for SFD loans in 2006 during the course of my fieldwork<sup>707</sup>, my interviews indicate that this

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<sup>706</sup> Ibid.

<sup>707</sup> When I visited an exhibition by the SFD for marketing SME products, an official with the SFD volunteered to explain to me the application process for SFD loans in an effort to encourage me to apply. She explained to me that the process was straight forward, the loan may be disbursed in kind (presumably to avoid the use of SFD loan for non-business

requirement was *not* applied by major micro-finance implementing GNGO partners, such as the Productive Families Program (PFP), in the face of wide opposition from within the state's ranks. Beneficiaries, often low-ranking state employees themselves or their sons and daughters, did not want to jeopardize their chances at public employment. Since they predominantly belonged to the lower echelons of the bureaucracy, in some cases, beneficiaries successfully communicated their opposition to the SFD's stipulation through GNGOs in charge of implementing the fund's programs.

According to the head of the PFP, the concerns of beneficiaries were taken up by the central department, which successfully re-negotiated the terms of SFD loans to end the condition of losing the right to register with the Ministry of Manpower for public employment.<sup>708</sup> As she explained, the program "now targets the educated and those with low-income levels, specifically the youth, workers laid off after privatization and civil servants ...so how can we prevent those from seeking employment?"<sup>709</sup>

Similarly, state-owned banks have influenced the course of retrenchment, by skewing the allocation of small business loans to relatively well off elements of the middle classes. As the manager of the SFD's Loan Portfolio Quality Department explained to me, "instead of adopting flexible collateral requirements for SFD applicants, like cash flow or immaterial social pressures-- such as having co-signers from the same family, conducting unplanned visits to monitor business performance or field visits to

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purposes) and the only requirements are to be literate, have no criminal record and not registered with the Ministry of Manpower.

<sup>708</sup>Esmat Rushdi Director of the department of Productive Families and Vocational Rehabilitation at the Ministry of Social Solidarity, *Interview by Author* (Cairo, Egypt: April 13, 2006).

<sup>709</sup>Ibid.

assess business potential--”<sup>710</sup>the banks required a government salary as collateral and, as a result, the loans went outside the “target” group.

From the banks’ perspective, start-up entrepreneurs targeted by the SFD’s SEDO loans were deemed both risky as well as unprofitable prospective borrowers. Since loan applicants approved by the SFD typically lacked business experience, banks were often reluctant to grant SFD credit, especially since they assumed responsibility for the loans. Indeed, small business lending under SFD conditions was viewed as unprofitable given the small loan amounts as well as the low profit margin of 3-5 percent designated by the fund to the banks<sup>711</sup> versus their regular profit margin of about 20 percent.<sup>712</sup>

As a result, banks often adopted strict collateral requirements, a pattern that has rendered SEDO loans accessible primarily by better-off middle class civil servants and their offspring.<sup>713</sup> As one loan applicant explained to me, although the SFD approved his application, the Bank of Alexandria requested a deposit of L.E. 50,000, the signature of a government employee, whose monthly salary is higher than the monthly interest payment on the loan, as well as blank checks as collateral.<sup>714</sup> Further, according to him, bank officials declined to accept assets, such as his place of residence, as loan collateral. Indeed, in light of the banks insistence on having a government salary as collateral, SEDO’s loans have become largely restricted to the relatively well-off elements of the middle class. This is the case as the minimum required monthly salary level for the

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<sup>710</sup> Khaled El Defrawy, *Interview by Author*.

<sup>711</sup> The SFD subsidized credit is at 7-9 percent depending on loan size, the fund’s share is 4 percent and the rest are designated to cover the bank’s expenses and profits. The regular interest rate at Bank Misr’s SME credit department is 16 percent.

<sup>712</sup> Munir Fakhry Abdel Noor, *Interview by Author* (Cairo, Egypt: December 14, 2006).

<sup>713</sup> There are cases of businessmen with already existing enterprises who have also been able to access the subsidized loans because they could meet bank requirements.

<sup>714</sup> Makram, *Interview by Author*.

average L.E.30,000 SEDO loan,<sup>715</sup> is L.E.1050, which is considerably higher than the average L.E.624 wage of civil servants in 2005.<sup>716</sup>

### ***III. Geographic Targeting***

Geographic targeting has emerged as the most important and widely used technique for resource allocation by SFs, according to a 2004 evaluation of SFs worldwide.<sup>717</sup> According to David Bigman and Hippolyte Fofack, it is both easy to implement and to monitor since it involves lower administrative costs than other targeting methods, which require more detailed information at the household or individual levels.<sup>718</sup> For some development practitioners, like Julie Van Domelen, geographical targeting also has the “advantage” of being based on “objective criteria”, which are presumed to “foster transparency and minimize political interference.”<sup>719</sup> As elaborated in this section, I argue that contrary to these perspectives, poverty mapping is a politically contentious endeavor and as my analysis of the SFD allocations in section V highlights, geographic targeting does *not* guard against “political interference”.

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<sup>715</sup> Average based on 2004 figures cited in Social Fund for Development, *Multi-Donor Review of the Social Fund for Development: Final Report*, ix.

<sup>716</sup> Calculated by the author using 8 percent interest and a three years repayment period. The average wage figure is derived from official statistics by the Central Agency for Organization and Administration cited in Helmy, "Towards Developing the Minimum Wage Policy in Egypt,"2.

<sup>717</sup> Rawlings et al., *Evaluating Social Funds: A Cross-Country Analysis of Community Investments*, 51.

<sup>718</sup> Bigman and Fofack, "Geographical Targeting for Poverty Alleviation: An Introduction to the Special Issue,"131.

<sup>719</sup> VanDomelen, "Reaching the Poor and Vulnerable: Targeting Strategies for Social Funds and Other Community-Driven Programs," iii.



## A. Politics of Mapping

The SFD has commissioned several targeting maps since its establishment in the early 1990s. The development of its geographic targeting mechanism has been heavily influenced by political dynamics. Although the consultant first assigned the task of poverty and unemployment mapping in 1992, Dr. Nader Fergany was initially commissioned to further develop the map at the local levels of kism/ markaz then Shiakha/village, his map was deemed politically unacceptable.<sup>720</sup> Thus, in 1996, another map was commissioned; this second map was adopted by the SFD. This section compares the 1992 and 1996 maps in order to uncover factors influencing the politics of mapping under the SFD.

A comparison of the two targeting maps reveals important differences that have resulted in significant shifts in poverty rankings. Although both maps are problematically based on household expenditure proximate indicators from the 1986 CAPMAS census database, *without* incorporating detailed household survey data, the composite poverty indices were calculated in significantly different ways. While the 1992 poverty map is the normalized first principal component of seven variables, the 1996 map is based on only six variables. In contrast to the 1992 map, the 1996 map excludes the child/woman ratio from the poverty index, a fact that seems to compromise its targeting accuracy. This is the case as, child-related indicators are commonly considered important predictors of household consumption levels.<sup>721</sup> Another important distinction between the two maps is the fact that, the 1992 map assigned prime importance to the proportion of

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<sup>720</sup> Nader Fergany, *Interview by Author* (Cairo, Egypt: July 16, 2007).

<sup>721</sup> Rawlings et al., *Evaluating Social Funds: A Cross-Country Analysis of Community Investments*.

individuals in households without drinking water from a public network whereas the 1996 map prioritized female illiteracy levels. It is also evident that calculations of unemployment indices are slightly different. Whereas the 1992 unemployment index is the range-normalized unemployment rate among individuals between the ages of 15 and 64 years, the 1996 unemployment index is the maximum normalized total unemployment rate. For a comparison of the indicators used for poverty mapping in the 1992 and 1996 maps, see Table 5.1.

**Table 5.1: Variables Used to Develop the SFD's Poverty Targeting Maps in Order of Importance<sup>722</sup>**

| Poverty Map 1992   | Poverty Map 1996   |
|--|--|
| 1. Proportion of individuals in households without drinking water from a public network in the housing unit. | 1. Female illiteracy rate  |
| 2. Female illiteracy rate  | 2. Proportion of individuals in households without drinking water from a public network in the housing unit. |
| 3. Relative drop in the average annual expenditures per individual in the household                          | 3. Proportion of individuals in households without kitchen   |
| 4. Proportion of individuals in households using kerosene as the sole source of energy                       | 4. Ratio of expenditures on food to total household expenditures   |
| 5. Ratio of expenditures on food to total household expenditures   | 5. Relative drop in the average annual expenditures per person in the household                              |
| 6. Proportion of individuals in households not having a kitchen  | 6. Proportion of household using kerosene as the sole source of energy                                       |
| 7. Child to woman ratio  |  |

<sup>722</sup> Compiled by the author from Nader Fergany, *Preliminary Results of the First Phase of Targeting for the Social Fund Poverty and Unemployment Profiles on the Level of Governorates (Urban/ Rural)* (Cairo: Social Fund for Development, 1992); Government of Egypt, and Social Fund for Development, *Annual Report 1995* (Cairo: Social Fund for Development, 1996).

Accordingly, the poverty and unemployment rankings of governorates are significantly different in the two maps (see figures one and two). Indeed, the share of urban governorates in the poverty index increased tenfold to reach 10 percent in the 1996 poverty map. This is a significant rise especially since proposed allocations take into consideration population sizes and Egypt's four urban governorates alone account for almost 20 percent of the country's population.<sup>723</sup> In addition, the division of Sinai into North and South Sinai governorates seems to account for a rise in border governorates' share of the poverty index from 20 to 22 percent. In contrast, both Lower and Upper Egypt regions experienced a decline in their shares. While Lower Egypt governorates' share of the total index slightly decreased from 33 to 32 percent, Upper Egypt was allocated 42 percent under the 1996 poverty map instead of 46 percent under the 1992 map.

As for the unemployment map, the shift in index calculations had only slight implications for governorate rankings. The urban governorates' share in the index declined from 20 to 18 percent, due to a decrease in Port Said's unemployment ranking. While border governorates increased from 11 to 14 percent, Lower Egypt slightly decreased by 2 percent to amount to 38 percent of the 1996 index and Upper Egypt's share remained constant.

Indeed, the decision to develop the 1996 poverty map seems to reflect the ruling regime's security priorities. Egypt in the 1990s experienced a wave of violent Islamist activities with a total of 441 terrorist attacks occurring during the period 1992-1995

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<sup>723</sup> Based on 1996 figures cited in United Nations Development Programme, *Egypt Human Development Report: Choosing Our Future: Towards a New Social Contract* (Institute of National Planning and United Nations Development Programme, 2005), 317.

alone.<sup>724</sup> While between 1994 and 1996, most of these incidents were concentrated in the upper Egyptian governorates of Menya, Asyuit and Qena, urban areas witnessed significant terrorist activities earlier in the decade. In both policy and intellectual circles, the regime's anxiety over growing Islamist militancy was translated into a concern with the expanding *ashwaiyyat* or informal urban settlements, which were deemed hotbeds of radicalism. In particular, the presumed link between urban poverty and religious extremism gained wide currency in the wake of the *Imbaba* quarter incident in 1993, in which state authority was directly challenged by al-Gama'a al-Islamiyya.<sup>725</sup> Although empirically questionable, the dominant view among national elites has since been that the urban poor "undermine modern urbanity and political civility, paving the way for Islamic extremism."<sup>726</sup>

The fact that shifts in poverty rankings favored urban areas and to a lesser extent the upper Egyptian governorates of Menya, Asyuit and Qena, whose share declined by only 1 percent, seems to be consistent with regime interests to channel resources towards problem zones.<sup>727</sup> As for the changes in unemployment rankings, these did not affect

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<sup>724</sup> Majles El Shura, *Confronting Terrorism* (Cairo: Majles El Shura, 2000).

<sup>725</sup> Asef Bayat, "Radical Religion and the Habitus of the Dispossessed: Does Islamic Militancy Have an Urban Ecology?," *International Journal of Urban and Regional Research* 31, no. 3 (2007): 581.

<sup>726</sup> Ibid 581. There is a debate about the nature of Islamist social bases of support, while some view radical Islam as the movement of the urban dispossessed par excellence, others make the case that the urban poor cannot afford to be ideological and that these movements draw their support from the ranks of the middle classes. See Bayat, *Making Islam Democratic: Social Movements and the Post-Islamist Turn*.

<sup>727</sup> The shift cannot be attributed to changes in population sizes. Rankings in the indices represent the relative severity of poverty and unemployment levels across governorates. As further discussed in section V, populations are factored in at the allocation stage using a formula.

governorates with a record of terrorist activities. Thus, the adoption of the new map seems to have been consistent with regime security interests.

## **B. The SFD's Geographic Targeting in the Balance**

The above analysis of successive poverty and unemployment mappings by the SFD has demonstrated that the fund's targeting method lacks in-depth geographic analysis. According to Kodras, geographic analysis of poverty "involves far more than the simple recognition of the spatial and temporal variations in its occurrence; it requires a larger conceptualization of the societal forces affecting the quality of people's lives and the ways in which these conjoin in particular contexts to generate greater chances for success in some locales, greater risks of failure in others."<sup>728</sup> However, the fund's poverty mitigation initiatives have concentrated on measurement of outcomes, through targeting maps that allow for comparisons based on a universal standard across space and time. As Jeremy Holland argues, "there is no built in incentive to uncover underlying causal dynamics of poverty."<sup>729</sup> Thus, historically accumulated social orders that differentially mold how the market and state affect poverty in localities do not figure into the SFD's targeting approach. Important structural variations in processes of exclusion, dynamics of poverty and labor markets across regions are overlooked. By focusing on outcome indicators represented by poverty and unemployment rates rather than process analysis, the SFD's approach problematically runs counter to the proclaimed strengths of

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<sup>728</sup> Janet E Kodras, "The Changing Map of American Poverty in an Era of Economic Restructuring and Political Realignment" *Economic Geography* 73, no. 1(1997):69.

<sup>729</sup> Holland, "The Role and Process of Poverty Analysis in Social Funds: Implications for the Egypt Social Fund for Development," 2.

SFs, which supposedly operate on the bases of demand-driven development principles giving control over planning and investment decisions to the local level.<sup>730</sup>

These tensions are aptly demonstrated, for instance, by the case of Portsaid. With the highest unemployment rate in Egypt for the last few years, officially estimated at 24 percent in 2004, the SFD's interventions were inadequate. Designated as a duty-free zone since the inauguration of economic liberalization or *infitah* in the 1970s, Portsaid emerged as a hub of entrepreneurship and has been consistently ranked at the top of Egypt's governorates for the last decade based on the human development indicators. However, the gradual phasing out of its duty-free status, which ended in 2009, has had a dramatic impact on the local labor market with a sharp rise in unemployment levels across all social groups. The SFD's provision of micro-loans ranging from \$500 to \$900 and small loans modestly averaging \$10,000 does not respond effectively to local market conditions, where entrepreneurial activity has traditionally been on a larger scale. According to long time local MP El Badry Farghaly, "the SFD's impact is only on paper, reality talks about something else entirely...it is creating a new kind of unemployment. In many cases, beneficiaries take the loans and spend it because the amounts are inappropriate. Jobs are not created and these small businesses are burdened with many demands. Therefore people do not actually set up projects but seek a quick profit."<sup>731</sup>

Further, the preceding analysis of the SFD's record in poverty mapping calls into question common criticisms of geographic targeting in the developing world. Firstly,

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<sup>730</sup> The supply-side nature of the SFs is a point also made by Judith Tendler, "Why Are Social Funds So Popular?," in *Local Dynamics in an Era of Globalization : 21st Century Catalysts for Development*, ed. Shahid Yusuf, et al. (New York: Oxford University Press, 2000).

<sup>731</sup> El Badry Fargaly, *Interview by Author* (Portsaid, Egypt: July 27, 2007).

critics highlight the need for considerable institutional capacity to develop sound targeting techniques, given widespread informality and the high costs involved in developing and administering targeting mechanisms.<sup>732</sup> Egypt's experience, however, demonstrates that the adoption of targeting maps is not hampered by limited state capacity. With funding estimated at over L.E. 108 million<sup>733</sup>, the SFD's Institutional Development Program sponsored the development of poverty and unemployment maps in the early 1990s. According to the consultant responsible for the setting up of these maps, institutional capacity did not affect his work.<sup>734</sup> Instead, as previously elaborated, political resistance from within the state, specifically the Ministry of Planning, has significantly influenced the development of the SFD's targeting tools. Recent efforts by the Ministry of Social Solidarity to update lists of beneficiaries of its targeted food subsidies program as well as its development of a new poverty map targeting households are further evidence of significant capacity in this area.<sup>735</sup>

Secondly, some analysts argue that setting up of targeting maps by donor-funded SFs is indicative of the rising power of international organizations and the eclipse of the state's power in the age of globalization. Indeed, according to James Scott, social simplifications as fashioned by "maps of legibility" constitute an important component of state formation.<sup>736</sup> By making possible "quite discriminating interventions of every kind, such as public-health measures, political surveillance and relief for the poor," maps

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<sup>732</sup> For a discussion see Mkandawire, "Targeting and Universalism in Developing Countries."

<sup>733</sup> Abdel-Latif, *A Review of SFD Activities: Report No 1*.38.

<sup>734</sup> Fergany, *Interview by Author*.

<sup>735</sup> Mona El Fiqi, "Bigger and Better Subsidies?," *Al Ahram Weekly* January 17-23, 2008.

<sup>736</sup> James C. Scott, *Seeing Like a State: How Certain Schemes to Improve the Human Condition Have Failed* (New Haven: Yale University Press, 1998).

historically enhanced state capacity.<sup>737</sup> Julia El Yachar's analysis of the SFD in Egypt interprets its establishment as "a framework through which the World Bank and other agencies could gather information on a national basis without having to rely on the discredited state statistics."<sup>738</sup> The SFD's assumption of mapping functions in her view has called into question the very notion of state sovereignty in Egypt.

Evidence from the field, however, paints a significantly different picture. Although the Fund at establishment was envisioned to assume a role in conducting base line studies on poverty in Egypt independent of mainstream state agencies and based on World Bank guidelines, political resistance from the then Ministry of Planning<sup>739</sup> aborted these initiatives.<sup>740</sup> According to Dr. Hussein El Gammal, the SFD's Managing Director between 1992 and 2003, "the Ministry of planning would not approve and didn't want us to get involved, because they wanted to monopolize it and put the conditions and definition of the criteria according to them. So they tell you the poor should not include

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<sup>737</sup> Ibid., 3.

<sup>738</sup> Elyacher, "Mappings of Power: The State, NGOs, and International Organizations in the Informal Economy of Cairo."

<sup>739</sup> The Ministry of Planning dates back to the enactment of socialist degrees in the 1960s and the adoption of central planning aimed at promoting the rational allocation of resources and the maximization of production levels within the public sector. Its broad mandate included drawing up five years development plans and coordinating the policies of individual ministries. It was only cancelled in 2006 and its successors are the Ministry of Economic Development and the Higher Council for Planning.

<sup>740</sup> Under the mandate of the Ministry of planning, the Central Agency for Public Mobilization And Statistics or CAPMAS is considered the "*official* source for providing all state bodies, organizations, universities, research centers, development and evaluation processes with the information that can help them to make informed decisions." See,

< [http://www.msrintranet.capmas.gov.eg/pls/fdl/frm\\_capmse?lang=0&lname=>](http://www.msrintranet.capmas.gov.eg/pls/fdl/frm_capmse?lang=0&lname=>)

Despite economic liberalization since 1974 and ERSAP in 1991, the Ministry of Planning has resisted the reduction of its mandate and two Prime Ministers in the 1990s served as Ministers of Planning prior to assuming leadership of the cabinet.



those who own a satellite dish. Same thing with the unemployment rates.”<sup>741</sup> As a result, not only were mapping exercises by the SFD conducted by mainstream government agencies, based on the state’s criteria, but also access to these data sets has remained a sensitive political concern for the state and approached as a subject of “national security” strictly within the domain of state sovereignty. Indeed, when data produced by the Ministry of planning and communicated to the SFD were considered too sensitive, the fund was instructed not to publish or share them with donors.<sup>742</sup>

These patterns of state resistance to independent mapping by the SFD and securitization of statistics on poverty in Egypt have been echoed in a recent report on the newly commissioned targeting map based on LAD principles. According to the report, CAPMAS rejected an initial request to access data “claiming that the income and expenditure data was politically sensitive and could not be shared by a non-governmental entity.”<sup>743</sup> Ultimately, the map was developed based on a compromise whereby CAPMAS staff conducted the analysis while high-ranking officials monitored the results

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<sup>741</sup>Hussein El Gammal, *Interview by Author*. The author’s own experience with CAPMAS, which fell under the Ministry of Planning confirms El-Gammal’s statements. As the national agency for statistics, CAPMAS is considered a politically sensitive body and is headed by military officers, who approach the collection and access to information as matters of national security. In the course of fieldwork, I attempted to access the results of a 2005 CAPMAS survey assessing the impact of the SFD on poverty trends. I was specifically instructed by my contact person at the agency not to mention that I am affiliated with a foreign university, in order to not raise suspicions. Nonetheless, despite attempting to navigate carefully my encounters with the officers in charge of the SFD’s surveys, I was not granted access to the results but instead was allowed access to surveys of employment patterns in governorates, which were commissioned by the fund and deemed less sensitive.

<sup>742</sup> Ibid.

<sup>743</sup>Population Council and Center for Economic Juridical and Social Studies and Documentation (CEDEJ), *Egypt’s Poverty Targeting Tool Kit: An Exercise Requested by the Social Fund for Development* (Cairo: Social Fund For Development, 2006), 12.

of statistical models and granted their approval before the SFD could access them.<sup>744</sup> Accordingly, the authors of the CDP's latest map conclude that future sustainability of the SFD's poverty mapping largely depends on partnership with CAPMAS--the only entity with rights to use Household Income and Expenditure Consumption Survey datasets.<sup>745</sup>

#### ***IV. Beneficiary Selection Process on the Ground***

How have implementing partners on the ground operationalized the SFD's targeted programs? Drawing on qualitative evidence from the field, this section provides a critical discussion of discretionary beneficiary selection processes by NGOs and banks. The discussion sets the background for subsequent multivariate analysis of SFD allocations in section V.

Unlike recent social protection initiatives, such as PROGRESA in Mexico, the SFD's targeting mechanism does not incorporate a socio-economic census of households in areas designated as marginalized, nor does it use participatory assessment by community members of the lists of beneficiaries.<sup>746</sup> Further, identification of beneficiaries is neither conducted by the community-- through savings or credit associations--nor is it based on means testing by field staff.<sup>747</sup> Similarly, loan approval

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<sup>744</sup> Ibid.

<sup>745</sup> Ibid.

<sup>746</sup> For a discussion, Alina Menocal, "Do Old Habits Die Hard? A Statistical Exploration of the Politicization of ProgresA, Mexico's Latest Federal Poverty-Alleviation Programme, under the Zedillo Administration" *Journal of Latin American Studies* 33 no. 3 (2001): 522.

<sup>747</sup> VanDomelen, "Reaching the Poor and Vulnerable: Targeting Strategies for Social Funds and Other Community-Driven Programs," 39.

procedure is not based on the so-called “microfinance best practices”<sup>748</sup>, which entail credit evaluation using standardized credit rating systems, such as CAMEL, PEARLS and GIRAFFE.<sup>749</sup> Rather, the process of beneficiary selection by NGO staff is discretionary and subject to final approval by the SFD’s headquarters based on little credit analysis.

Indeed, interviews with micro-loan officers from 15 NGO implementing partners in six governorates in Lower and Metropolitan governorates reveal that selection of beneficiaries is based on subjective criteria of “trustworthiness” rather than project details. In the words of one officer, “when we come to say we will give a loan to anybody, that person we know at a personal level, we are sure of him, we know who he is the son of, how his history is like...because we have the right to say yes or no so not anyone who approaches us we give him credit. I select the category with a clean CV.”<sup>750</sup> When asked about the kinds of loan collateral typically required, another NGO leader explained that this varies according to her perception of prospective beneficiaries. “I look at the person and if he is a troublemaker, I tell him look you have to get me a government employee. Normally, they have three choices: either get me a government employee, a land register or a commercial register.”<sup>751</sup>

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<sup>748</sup> For a critical discussion of this concept see, Julia Elyachar, “Best Practices: Research Finance, and NGOs in Cairo,” *American Ethnologist* 33, no. 3 (2006).

<sup>749</sup> Social Fund for Development, *Multi-Donor Review of the Social Fund for Development: Final Report*, 68-9.

<sup>750</sup> Hajj Arabi, Leader of Qantara NGO, *Interview by Author* (Ismailiya, Egypt: December 27, 2006).

<sup>751</sup> Alya Fahmy, Head of Abu Khalaf NGO, *Interview by Author* (Ismailiya, Egypt: December 27, 2006).

Along similar lines a third NGO officer problematically made the case that he bases credit decisions on the “personal intentions and social behavior of applicants.”<sup>752</sup>

He offered the following description of his decision-making process,

The applicant first sits with the secretary and if he leaves a certain impression, she tells me so I pay more attention to him. So they meet him outside first and say he seems not to be serious, a troublemaker or not a hard worker. When I meet with him and start a discussion record, I ask about his name, education and then about his work experience, why he has left it and his reasons. The father’s job and place of residence...the father’s job gives me a sense if he will guarantee him or not, if he is dead or his parents are divorced....this is important because if the family is broken, no one will carry the loan and no one will guarantee the applicant. Another point is their marital status...if he has proposed and was turned down, why did the bride’s family turn him down? [These are] issues totally unrelated to the loan.<sup>753</sup>

Notions of trustworthiness, however, are deeply problematic in the case of these NGOs, which have little grassroots links. Many SFD implementing agencies could be more appropriately labeled as GNGOs and the few NGO partners that work with the SFD are led and managed by members of the political elite or the middle classes, without meaningful links to local communities.<sup>754</sup> Indeed, fieldwork indicates that the overwhelming majority of officers in charge of SFD credit decisions do not belong to the communities where they work.

Unlike micro-credit under the CDP, SEDO, does not partner with NGOs in its allocation of small business loans, which are typically larger and aimed at formal businesses. Rather, it predominantly operates through banking institutions and has started to directly extend credit to small businessmen. During fieldwork, I visited a SEDO office in the middle class neighborhood of *Heliopolis* in Cairo. A sign was prominently

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<sup>752</sup> Mohamed Ameen, General Manager of the Egyptian NGO for Employing the Unemployed, *Interview by Author* (Cairo, Egypt: November 29, 2006).

<sup>753</sup> Ibid.

<sup>754</sup> The CDAs and GNGOs partnering with the SFD are typically headed by the same personnel responsible for the Ministry of Social Solidarity’s social units.

displayed stating: “Important warning: being present, or getting acquainted, with employees of the Social Fund for the purposes of procedures (getting loans, extensions on loans...etc,) is strictly forbidden.”<sup>755</sup> During my visit, a senior SEDO official explained to me the process of beneficiary selection in the following terms:

It takes a month to a month and a half to get a loan. We begin by discussing with the client important details: what the project is, how to implement it, how to do a market study (population, competition and the neighborhood’s income levels). Next, SFD officials look at the physical site and equipment for the project (either leased or owned). We tell the client that, the fund’s loan is not to him personally but to the proposed project. Afterwards, we tell them to register the business, get a commercial register and a legal status, at this stage the SFD recommends that he applies with the the banks...etc,<sup>756</sup>

While attending an exhibit for SME products, a SEDO employee encouraged me to apply for a small loan and offered the following description of the selection process. “Selection depends on several criteria such as, literacy, fulfilling military requirement, not to be registered with the Ministry of Manpower and having no police record, but it all depends on how well you argue our case...there is room for negotiation. The most important thing is that the applicant be the actual entrepreneur.”<sup>757</sup>

Officially, the selection of beneficiaries involves an evaluation of their assets and meeting the banks’ collateral requirements. Although the SFD has attempted to standardize and simplify collateral requirements through the set-up of Egyptian Association for Cooperative Insurance (EACI), which covers 80 percent of the loan

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<sup>755</sup> Social Fund for Development, *Misr Al Gadida*, Heliopolis Branch (Cairo, Egypt: November 23, 2005).

<sup>756</sup> Khaled Hamdy, *Interview by Author*.

<sup>757</sup> The Social Fund employee approached me to apply for a loan through a One-Stop-Shop that was set-up by the SFD next to the exhibit to facilitate loan application and licensing. His emphasis on having the actual entrepreneur apply is because there have been incidents in which women apply for SFD loans to finance their male siblings businesses. Small Enterprise Development Employee, *Interview by Author* (Cairo, Egypt: June 14, 2006).

value, bank officials continue to exercise considerable discretion in beneficiary selection.<sup>758</sup> This is in part due to the facts that banks assume liability for the loans in return for low profit margins as well as the increasing reluctance among bank officials to extend subsidized SFD credit after a wave of defaults by small entrepreneurs in the late 1990s and a major banking crisis in 2000. Ironically as well, efforts to promote “microfinance best practice principles” as well as growing competition from international banks have encouraged local banks to downscale by expanding into micro and small business lending<sup>759</sup>, which has placed the banks in direct competition with the SFD.

#### ***V. Explaining SFD Allocations***

Data on the SFD’s small and micro-credit geographical distribution patterns are available for the years 1996, 2004, 2005 and the first half of 2006.<sup>760</sup> The level of aggregation used here is dictated by available data, which are at the governorate level. Comparatively analyzing micro and small business credit distribution patterns against the 1996 poverty maps reveals that while some regions have been allocated more than targeted levels others have received as little as six percent of targeted amounts. As shown in figures 5 and 6<sup>761</sup>, the ratios of actual allocations to proposed amounts based on the 1996 maps significantly vary across regions and over time. While governorates in Lower Egypt have received less than their targeted share of CDP financing in the four

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<sup>758</sup> Banks according to a 2001 Parliamentary report on unemployment notes that some banks refuse to deal with the CIS. In addition, some banks have tended to decline financing SMEs outside the industrial sector. See, Majles El Shaab, *Report On Unemployment by the Joint Committees of Manpower and youth* (Cairo: Majles El Shaab, April 18, 2001).

<sup>759</sup> Ex-Consultant for the Social Fund for Development, Alexander Hauer Bass, *Interview by Author* (Cairo: August 8, 2006).

<sup>760</sup> Only the 1996 figures are officially published in Government of Egypt, and Social Fund for Development, *Annual Report 1995* (Cairo: Social Fund for Development, 1996).

<sup>761</sup> See appendix for figures 5 and 6.

years under study, urban governorates have been under-financed by SEDO. These patterns, in fact, indicate that variables other than the composite poverty and unemployment indices have influenced the SFD's distribution of loans. What explains the SFD's small and micro-credit distribution patterns?<sup>762</sup>

Given the high profile of the SFD, its regional allocation patterns are publicized in semi-official newspapers. For instance, in 2002 *Al Ahram* routinely reported that the greater Cairo area received 20.5 percent of total contracted funds and that urban governorates received a disproportionate 35.8 percent of small business loans.<sup>763</sup> Interestingly, commentators do not address reasons behind the SFD's apparent targeting failures. Instead, public discourse has emphasized the role of *wasta*, or informal connections, in accessing SFD loans based on impressionistic and fragmentary evidence.<sup>764</sup> There have, however, been no efforts to systematically analyze the distribution records of the SFD or identify relevant power dynamics at work. In the following section, I will attempt to address these issues.

#### **A. Electoral Politics and the Social Funds' Allocation Patterns**

In-depth accounts of SFs in countries like Mexico and Peru highlight the influence of electoral politics on their allocation patterns. According to some, both the discretionary character of their allocations as well as the fact that SFs provide "numerous individual grants for small projects that are spatially disbursed" render it an excellent

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<sup>762</sup> Fieldwork suggests that donors occasionally earmark funding for particular governorates, this however does not account for the systematic biases detailed in the chapter.

<sup>763</sup> *Al Ahram*, "20.5% for Greater Cairo from Total Social Fund for Development Contracts," May 7, 2002, 14.

<sup>764</sup> For instance, Emad Khyra, "Six Years after Establishment: The Social Fund for Development Is Stumbling...Why?," *Al Wafd*, June 14, 1997, 3.

vehicle for dispensing patronage.<sup>765</sup> Schady's influential study of the political economy of expenditures by the Peruvian social fund (FONCODES) under Fujmori highlights the role of patronage. While marginal voters and core supporters were disproportionately favored by FONCODES, the "executive's control over patronage" has meant that the program was also pro-poor in its distribution.<sup>766</sup> Similarly, statistical analyses of Mexico's PROGRESA have shown that its expenditures per household per state are pro-poor, but examining the proportion of households benefiting from the program reveals that the distribution across states is influenced by political variables.<sup>767</sup> Lastly, regression analysis of Mexico's earlier PRONASOL program has found that "the greater the number of persons in a state with incomes of less than one minimum wage, the less PRONASOL money the federal government spent there in 1990."<sup>768</sup> Instead, Juan Molinar Horcasitas and Jeffery Weldon find that electoral considerations, such as the results of the preceding elections as well as the concurrence of local and federal elections in some states, influenced distribution patterns.<sup>769</sup>

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<sup>765</sup>Tendler, "Why Are Social Funds So Popular?," 121.

<sup>766</sup>Norbert R. Schady, "The Political Economy of Expenditures by the Peruvian Social Fund (Foncodes), 1991-95," *American Political Science Review* 94, no. 2 (2000).

<sup>767</sup>Menocal, "Do Old Habits Die Hard? A Statistical Exploration of the Politicization of ProgresA, Mexico's Latest Federal Poverty-Alleviation Programme, Under the Zedillo Administration."

<sup>768</sup>Juan Molinar Horcasitas and Jefferey A. Weldon, "Electoral Determinants and Consequences of National Solidarity," in *Transforming State-Society Relations in Mexico: The National Solidarity Strategy*, ed. Wayne A. Cornelius, Ann L. Craig, and Jonathan Fox (San Diego: Center for U.S.-Mexican Studies, University of California, San Diego, 1994), 136; For a similar analysis see, Kathleen Bruhn, "Social Spending and Political Support: The "Lessons" of the National Solidarity Program in Mexico," *Comparative Politics* 28, no. 2 (1996): 151-177.

<sup>769</sup>Horcasitas and Jefferey A. Weldon, "Electoral Determinants and Consequences of National Solidarity," 139. Rather than interpreting these trends as signs of clientelism and authoritarianism, the authors suggest that these are "patterns of political exchange" that are consistent with democratic regimes, 140.



In the case of Egypt, the link between elections and the SFD seems evident at more than one level. Firstly, the SFD has partnered with the ruling NDP in its micro-loan disbursement efforts in recent years. In fact, the NDP's secretary general announced in 2006 that party offices throughout Egypt will now host SFD lending services and that "the party's secretary in Cairo has pioneered in this area by receiving 700 requests to establish micro-enterprises."<sup>770</sup> Further, the NDP in partnership with the SFD has extended student aid programs for university students.<sup>771</sup>

Secondly, Hani Seif El Nasr, the managing director of the SFD ran as NDP candidate for *shura* elections in 2006 under the slogan: "hand in hand to end poverty and raising living standards." El Nasr ran uncontested and won the seat after the Muslim Brotherhood candidates were forced to withdraw in the face of intimidation by the state.<sup>772</sup> His win in Fayoum governorate mirrored the broader shifts in Egypt's political landscape after the relatively open parliamentary 2005 elections.

Thirdly, comparing SFD expenditure levels during 2005 the election year with the figures for 2004 confirms the political business cycle argument.<sup>773</sup> Indeed, SEDO's total volume of loans rose by 109 percent in 2005 and the number of beneficiaries similarly increased by 103 percent. Further, CDP's micro-credit loans dramatically increased by 366 percent in 2005 while the number of beneficiaries increased by 238 percent, a trend

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<sup>770</sup> *Al Ahram*, "National Democratic Party Announces New Social Measures," June 15, 2006, 9. Indeed, even upper middle class neighborhoods in Cairo such as Heliopolis displayed banners advertising SFD loans for the youths through the local NDP branches.

<sup>771</sup> Population Council and CEDEJ, *Egypt's Poverty Targeting Tool Kit: An Exercise Requested by the Social Fund for Development*, 12.

<sup>772</sup> Indeed, 33 members of the Muslim Brotherhood were arrested in the same governorate

<sup>773</sup> See for instance Samer Soliman, *Political Participation in Parliamentary Elections 2005: Obstacles and Necessary Steps* (Cairo: The Egyptian Association for Community Participation Enhancement, 2005).

that indicates that average loan amounts as well as number of loans increased in the election year. Indeed, according to the SFD map, the average ratio of actual CDP allocations to proposed amounts per governorate peaked in 2005 to reach almost 226 percent versus 82 percent in 2004 and 146 percent in 2006.<sup>774</sup> As for SEDO, the average ratio of actual to proposed allocations rose from 160 percent in 2004 to 178 percent in 2005 and peaked at 198 percent in 2006.

Beyond impressionistic evidence, however, there has been no systematic effort to statistically analyze the SFD's political economy of expenditures and assess the extent to which it serves the ruling NDP's political agenda. To do so, I build a statistical model with the aim of identifying the factors that may have influenced the fund's allocation patterns in 2005 and early 2006, an important period covering both parliamentary and presidential elections as well as their immediate aftermath. As elaborated below, the picture that emerges confirms the notion that the SFD's expenditure patterns are politicized. Indeed, the fund simultaneously rewards areas with higher NDP support, through its SEDO allocations, while penalizing areas with a stronger history of Muslim Brotherhood support by allocating them lower levels of CDP funding.

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<sup>774</sup> The proposed distribution of funds based on the maps is the practical translation of the poverty/unemployment profiles derived from the different indices arrived at. In addition to the level of intensity of the phenomenon considered the proposed distribution takes into consideration population size [ $\text{dist} = ( \text{index} \times \text{population} ) / \text{Sum} ( \text{index} \times \text{population} )$ ]. See, Nader Fergany, *Preliminary Results of the First Phase of Targeting for the Social Fund Poverty and Unemployment Profiles on the Level of Governorates (Urban/ Rural)* (1992). The high average ratio of allocations in 2006 could be attributed to the fact that the impact of elections, which took place in late 2005. It is likely that loans approved in 2005 were disbursed a few months later in 2006.

## B. Spatial Distribution of Loans

Given the SFD's objectives of poverty alleviation and job creation, an initial stage in the analysis is to assess the extent to which the program responds to poverty and unemployment related indicators, both as defined by official maps as well as independent measures. The dependent variable adopted in the regressions below is the breadth of SFD allocations per capita as indicated by number of CDP and SEDO loans per capita across the country's 26 governorates.<sup>775</sup> Tables 5.2, 5.3, and 5.4 analyze the distribution of per capita loans against the following three variables. The first is a poverty scale ranking governorates based on average predicted Real Per Capita Consumption (RPCC) levels derived through "the small-area estimation" technique combining both comprehensive 1996 census data as well as detailed welfare information from the 1999/2000 household surveys.<sup>776</sup> As described by Roushdy and Assaad, variables used as indicators for household expenditure in this scale are 47 and "could be grouped into three categories: (1) demographic, social and economic characteristics of the household; (2) housing conditions and access to basic services; (3) ownership of durable goods."<sup>777</sup> The second variable is the proposed number of SEDO loans derived by updating the official 1996 unemployment index. Lastly, the third variable I use is the SFD's 1996 official poverty map rankings of governorates.

As indicated below, individually controlling for poverty defined here as real per capita consumption level as well as the SFD's technocratic targeting criteria (i.e. official

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<sup>775</sup> Accordingly, there are 26 observations in the tables that follow.

<sup>776</sup> Rania Roushdy and Ragui Assaad, "Poverty and Geographic Targeting in Egypt: Evidence from a Poverty Mapping Exercise " *Economic Research Forum Working paper* 715 (2007): 2-3.

<sup>777</sup> Ibid., 4. See appendix for a list of the variables used for the development of the RPCC scale.

poverty and unemployment indices), reveals the existence of *weak* co-relationships with the spatial distributional patterns of loans with predictability ranging from 7 to 23 percent. In other words, poverty and unemployment indicators marginally explain loan per capita distribution patterns. Indeed, as indicated in Tables 5.2, 5.3, 5.4 and 5.5, real per capita consumption is *negatively* correlated with the number of CDP loans per capita yet only explains less than 2 percent of the variations. In contrast, the per capita number of SEDO loans tends to *increase* in richer areas and accounts for 23 percent of the distribution. As for the SFD's official poverty and unemployment maps, they weakly correlate with per capita allocation patterns and account for 21 and 7 percent of the variations respectively.

**Table 5.2: Number of CDP Loans per capita in 2005-2006 Correlated to Real Per Capita Consumption**

| Variable  | Parameter Estimate | Standard Error | T Value |
|-----------|--------------------|----------------|---------|
| Intercept | 0.00617            | 0.00275        | 2.24    |
| RPCC      | -9.39975           | 0.00000142     | -0.66   |

Number of observations: 26

R squared= 0.018

**Table 5.3: Number of SEDO Loans in 2005 and 2006 Correlated to Real Per Capita Consumption**

| Variable  | Parameter Estimate | Standard Error | t Value |
|-----------|--------------------|----------------|---------|
| Intercept | -0.00011042        | 0.00040072     | -0.28   |
| RPCC      | 5.53469E-7         | 2.062919E-7    | 2.68    |

Number of observations: 26

R squared= 0.23

**Table 5.4: Number of CDP Loans per capita in 2005-2006 Correlated to SFD poverty map**

| Variable                 | Coefficient | Standard Error | t Value |
|--------------------------|-------------|----------------|---------|
| <b>Intercept</b>         | 0.00022015  | 0.00176        | 0.13    |
| <b>SFD Poverty index</b> | 0.00000886  | 0.00000347     | 2.55    |

Number of observations: 26

R squared= 0.21

**Table 5.5: Number of SEDO Loans in per capita 2005-2006 Correlated to SFD unemployment map**

| Variable                      | Coefficient | Standard Error | t Value |
|-------------------------------|-------------|----------------|---------|
| <b>Intercept</b>              | 0.00056750  | 0.00029745     | 1.91    |
| <b>SFD Unemployment index</b> | 7.697808E-7 | 5.864762E-7    | 1.31    |

Number of observations: 26

R squared= 0.07

### **C. The Role of Political Variables in SFD Allocations**

In order to assess the extent to which the SFD is politicized, a multivariate model that incorporates both socioeconomic and political variables is adopted. By incorporating theoretically pertinent variables, the analysis will shed light on the relative significance of each variable in explaining allocation patterns. Aside from measures of poverty and unemployment, four political variables are adopted. The first is the percentage of seats won by the ruling party in 2005 parliamentary elections including seats won by

independents who rejoined the NDP after the elections. The second is the percentage of votes won by NDP in 2005 presidential elections.<sup>778</sup> The third is the Muslim Brotherhood history scale operationalized by summing up number of seats nominated for in 2000, seats won in 2000 as well as seats nominated for in 2005. The fourth is the rate of voting in the 2000 parliamentary elections as a measure of political participation.<sup>779</sup>

In order to account for the comparative advantage effect of better off communities, the study controls for institutional capacity in the case of SEDO. Indeed, given the demand driven nature of SFs, they have been commonly criticized on the grounds that poorer areas lacking institutional capacity to articulate their needs are at a disadvantage. According to Judith Tendler, “poor communities are handicapped in responding to SF-like initiatives in that they require prior organizing, preparation of project proposals, and choosing and monitoring of outside contractors.”<sup>780</sup> Indeed, variations in NGO capacity may have led to a bias in CDP’s operations particularly in light of the SFD’s official move away from partnering with GNGOs since 2001.<sup>781</sup> However, statistical evidence indicated in Table 5.2 refutes this hypothesis and confirms evidence from the field that the SFD does not operate on the bases of community driven development principles. Using real per capita consumption levels as a proximate measure

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<sup>778</sup> Although Luxor was treated as a distinct governorate in the presidential elections, it has not been officially designated as such in the elections law regulating the parliamentary elections. Accordingly, I have excluded it from the analysis.

<sup>779</sup> United Nations Development Programme, *Egypt Human Development Report: Choosing Our Future: Towards a New Social Contract*, 230.

<sup>780</sup> Tendler, "Why Are Social Funds So Popular?," 118.

<sup>781</sup> Aside from drafting proposals, NGOs partnering with the SFD are expected to guarantee repayment of loans through an effective network of loan officers. NGOs with the capacity to re-circulate the contracted funds in micro-loans more than once during the agreement time period stand to benefit from partnering with the SFD, given the low 2% profit margin normally designated to them, and these are more likely to operate in better off governorates.

of NGO capacity shows, a weak *negative* co-relationship with per capita micro-loan distribution patterns. In contrast, in the case of SEDO as shown in Table 5.3, the small business lending capacity of banks varies across governorates and tends to be concentrated in richer areas.<sup>782</sup> Thus, a recent ILO survey on the business climate of SMEs in Egypt found that a higher proportion of entrepreneurs in poorer governorates identify access to credit as a serious obstacle to their operations.<sup>783</sup>

If the fund has a political bias, the regression models should show that political variables are significant in explaining how CDP and SEDO allocate loans after relevant variables are controlled for. More specifically, in the case of SEDO, the analysis controls for the effects of variations in institutional capacity, as measured by the average predicted real per capita scale, as well as differences in unemployment rates<sup>784</sup> across governorates in order to isolate the impact of political variables. In the case of CDP, the analysis controls for the degree of poverty as measured by the average predicted real per capita scale.

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<sup>782</sup>Alexander Hauer Bass, *Interview by Author*.

<sup>783</sup>ILO and Federation of Economic Development Associations, *A Survey on the Business Climate for Micro, Small and Medium-Sized Enterprises in Egypt* (Cairo: ILO, 2006).

<sup>784</sup>I adopt an updated version of the SFD's unemployment index, which is based on maximum normalization of 2004 unemployment rates as well as 2005 and 2006 population figures. The 2004 unemployment rates are derived from the Egypt HDR 2006 while the data on population size is from the 2006 CAPMAS census.

**Table 5.6: Number of SEDO Loans in per capita 2005-2006 Correlated to SFD unemployment map and RPCC**

| <b>Variable</b>               | <b>Parameter Estimate</b> | <b>Standard Error</b> | <b>t Value</b> | <b>Squared Partial Corr Type II</b> |
|-------------------------------|---------------------------|-----------------------|----------------|-------------------------------------|
| <b>Intercept</b>              | -0.00021183               | 0.00043045            | -0.49          | .                                   |
| <b>RPCC</b>                   | 5.098829E-7               | 2.177238E-7           | 2.34           | 0.19254                             |
| <b>SFD Unemployment Index</b> | 0.00001625                | 0.00002332            | 0.70           | 0.02066                             |

Number of observations: 26

R squared= 0.2

**Table 5.7: Determinants of Number of SEDO Loans Per Capita Per Governorate**

| <b>Variable</b>                | <b>Parameter Estimate</b> | <b>Standard Error</b> | <b>t Value</b> | <b>Squared Partial Corr Type II</b> |
|--------------------------------|---------------------------|-----------------------|----------------|-------------------------------------|
| <b>Intercept</b>               | -0.00435                  | 0.00238               | -1.82          | 0.0839                              |
| <b>RPCC</b>                    | 7.421313E-7               | 2.144201E-7           | 3.46           | 0.0026                              |
| <b>SFD Unemployment Index</b>  | 0.00002248                | 0.00002092            | 1.07           | 0.2962                              |
| <b>NDP Parliamentary</b>       | 0.00000122                | 0.00000462            | 0.26           | 0.7943                              |
| <b>NDP Presidential</b>        | 0.00003571                | 0.00002421            | 1.48           | 0.1566                              |
| <b>MB History</b>              | -0.00002363               | 0.00000976            | -2.42          | 0.0256                              |
| <b>Political Participation</b> | 0.00002708                | 0.00001607            | 1.69           | 0.1082                              |

Number of observations: 26

R squared= 0.71



**Table 5.8: Determinants of Number of CDP Loans Per Capita Per Governorate**

| <b>Variable</b>                | <b>Parameter Estimate</b> | <b>Standard Error</b> | <b>t Value</b> | <b>Squared Partial Corr Type II</b> |
|--------------------------------|---------------------------|-----------------------|----------------|-------------------------------------|
| <b>Intercept</b>               | -0.00564                  | 0.01536               | -0.37          | .                                   |
| <b>RPCC</b>                    | -5.08156E-7               | 0.00000160            | -0.32          | 0.00504                             |
| <b>NDP Parliamentary</b>       | 0.00003741                | 0.00003183            | 1.18           | 0.06461                             |
| <b>NDP Presidential</b>        | 0.00012736                | 0.00016876            | 0.75           | 0.02769                             |
| <b>MB History</b>              | -0.00022036               | 0.00006417            | -3.43          | 0.37092                             |
| <b>Political Participation</b> | -0.00003349               | 0.00011961            | -0.28          | 0.00390                             |

Number of observations: 26

R squared= 0.52

The results of regressions in Tables 5.7 and 5.8 indicate that per capita allocations by CDP and SEDO can be largely attributed to political dynamics. Indeed, poverty accounts for less than 2 percent of per capita allocations by CDP, as shown in Table 5.2. Upon including political variables into the analysis, the model's explanatory power rises to 52 percent of the distribution as indicated in Table 5.8. Similarly, in the case of SEDO, the explanatory power of regional variations in institutional capacity and differences in unemployment levels are relatively weak compared to political variables. As shown in Table 5.6, the R square for unemployment and institutional capacity is only 0.25. When incorporating political variables as shown in Table 5.7, the model's explanatory power increases dramatically from 25 to 71 percent. In other words, per capita allocations cannot be reduced to regional variations in institutional capacity or differences in levels of poverty and unemployment. Rather, political variables play a more significant role in explaining its spatial allocation patterns.

A closer look at the relative importance of political variables reveals that the two programs have followed different political logics. Indeed, CDP's pattern of politicization is to a large extent attributable to *history of Muslim Brotherhood support*, which accounts for 79 percent of the total variations explained by the model.<sup>785</sup> In the case of SEDO, per capita allocations most significantly correlate with the *NDP performance in parliamentary elections*. In fact, 54 percent of the aggregate variations accounted for in the model could be traced back to NDP's parliamentary performance variable.<sup>786</sup>

#### ***VI. Interpreting the SFD's Political Economy of SME Lending***

Statistical analysis in the preceding section suggests the politicization of the SFD allocations as well as a number of important trends. Contrary to common criticisms, variations on institutional capacity do not account for differences in per capita allocation levels. In fact, in the case of CDP, there is no statistical evidence of institutional capacity bias since per capita allocations negatively correlate with average real predicted capita consumption levels. Although higher levels of institutional capacity are positively correlated to per capita SEDO allocations, the analysis shows that political factors matter more. Similarly, poverty and unemployment indicators are of limited relevance to the SFD's spatial distribution patterns. Instead, history of support for the Muslim Brotherhood is the main factor negatively affecting distribution patterns by CDP, while

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<sup>785</sup> The model in Table 5.8, which incorporates a spatial measure of poverty as well as four political variables, explains 52 percent of the distribution of loans per capita. 79 percent of the model's explanation (ie 52 percent of the distribution) is the MB history, whose squared partial corr type II is 0.37.

<sup>786</sup> The model in Table 5.7, which incorporates a spatial measure of poverty as well as four political variables, explains 71 percent of the distribution of loans per capita. 54 percent of the model's explanation (ie 71 percent of the distribution) is the NDP parliamentary performance, whose squared partial corr type II is 0.79.

correspondingly, allocations by SEDO are influenced positively by the ruling NDP's performance in parliamentary elections. Although the degree of politicization is more or less similar across the two programs, the fact that the bulk of the SFD funding is channeled through SEDO renders its politicization pattern particularly relevant to the analysis.

This section addresses two specific questions in order to identify the main contours of the SFD's political economy of expenditure. First, why has a history of Muslim Brotherhood support negatively correlated with per capita CDP loan distribution patterns? Secondly, how do we interpret the co-relationship between NDP support and differences in allocation levels by SEDO?

#### **A. Intra-state Dynamics and the Penalization of Opposition**

With regards to the link between support for the opposition and lower allocation levels by CDP, this tendency could be attributed to the program's *de facto* operation through governorates as well as Egypt's patterns of social protection expenditure. In my fieldwork, I saw that intrastate dynamics play a pivotal role in the SFD's micro-credit operations. Indeed, CDP funding is based on proposals advanced by individual governors who engage in processes of bargaining in order to secure SFD funding, select the local implementing NGOs as well as act as guarantors for credit lines extended to the latter.<sup>787</sup> Contrary to the ideals of community driven development, individual governors'

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<sup>787</sup> Indeed, local governments have little fiscal autonomy and overwhelmingly rely on transfers from Cairo, which amounted to 74.8 percent of their revenues in 2004-2005 and 76.7 percent in 2006-2007. Calculated from tables in Ministry of Finance, *The State Public Budget 2005-2006* (Cairo: Ministry of Finance, 2006). For more on the fiscal crisis of the state at the local level see, Soliman, *Strong Regime and Weak State*.

ability to bargain with the SFD and their relationship with the Prime Minister, seem to strongly influence allocation patterns.<sup>788</sup>

### **B. Patron-Client Relations**

As for the link between NDP performance and differences in SFD allocation levels, it is consistent with the politics of clientelism. Herbert Kitschelt and Steve Wilkinson define clientelism as “a particular mode of “exchange” between electoral constituencies as principals and politicians as agents”<sup>789</sup> or more specifically the exchange of a citizen’s vote in return for “direct payments or continuing access to employment, goods and services.”<sup>790</sup> Indeed, the fact that per capita allocations correlate less with voter turnout in the 2000 elections than NDP performance in the 2005 parliamentary elections, suggest that the bias in distribution patterns was not aimed towards courting potential voters at large but rather specifically rewarding areas with strong NDP support. Further, evidence from the field suggests that loan recipients typically need *wasta* to access SEDO funding, especially since SEDO loans are extended through banks, which require collateral as well as evidence of formal registration and cumbersome licensing procedures from 39 government agencies on the bases of 31 pieces of legislations.<sup>791</sup> Since NDP MPs typically have contacts within the government and the banking sector, access to SFD funding is likely easier for those who can rely on *wasta*

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<sup>788</sup> Senior Official at the International Labor Organization, *Interview by Author* (Cairo, Egypt: April 24, 2006).

<sup>789</sup> Herbert Kitschelt and Steven Wilkinson, "Citizen-Politician Linkages: An Introduction," in *Patrons, Clients, and Policies: Patterns of Democratic Accountability and Political Competition*, ed. Herbert Kitschelt and Steven Wilkinson (Cambridge ; New York: Cambridge University Press, 2007), 7.

<sup>790</sup> *Ibid.*, 2.

<sup>791</sup> The Social Fund for Development, *Towards Realizing the Role of Small and Medium Sized Enterprises in the Egyptian Economy Executive Summary*, 9.

from the NDP. In many cases as well, the very survival of small businesses hinges on the protection and support of well-connected patrons, given the complexities of legal regulatory frameworks they are supposed to abide by. The NDP seems to have recognized the importance of clientelistic ties with small entrepreneurs outside the SFD framework as well. Indeed, a national small business credit program was recently launched whereby NDP MPs can personally guarantee loans for small businesses as a substitute for bank collateral requirements.<sup>792</sup>

The likely prevalence of clientelistic ties in the case of SEDO is a significant finding. Indeed, the literature has thus far predominantly emphasized that party “machines target the poor, for whom the payoff of even a small reward outweighs the expressive value of voting for one’s preferred party.”<sup>793</sup> Along similar lines, commentaries on the 2005 elections often highlighted the concerns of the intelligentsia over the withdrawal of the middle classes from Egyptian politics. Renowned *Al Ahram* political analyst Mohamed El Saeed, for instance, alarmingly argues that the middle classes have abstained from voting in the presidential elections based on evidence of low voter turnouts in major cities.<sup>794</sup> Ameena Shafiq in *Weghat Nazar* contends that the “economically marginalized” were the majority of voters, a dangerous phenomenon given the “corrupting” clientelistic practices of businessmen-politicians.<sup>795</sup> Further, for

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<sup>792</sup> *Al Ahram*, “Ministers of Finance and Agriculture Announce in Alexandria: Loans for Small Entrepreneurs and Female Headed Households without Collateral,” November 16, 2005, 17.

<sup>793</sup> Susan C Stokes, “Perverse Accountability: A Formal Model of Machine Politics with Evidence from Argentina ” *American Political Science Review* 99, no. 3 (2005): 325.

<sup>794</sup> According to him, the new working class and small landowners as opposed to the poor represented the main voting block in the elections. See Mohamed EL Sayed Saeed, “Debts in the Aftermath the Presidential Elections,” *Al Ahram*, September 12, 2005, 10.

<sup>795</sup> Ameena Shafiq, “Corrupting the Poor ” *Weghat Nazar* 58 (2006):14-18.

Shafiq, the behavior of the so called “marginalized” as responsible economic actors, in their capacity as small business credit recipients, stands in sharp contrast to their corrupt vote selling behavior in the political arena.<sup>796</sup>

Aside from the fact that access to credit is significantly politicized, fieldwork conducted in the immediate aftermath of the 2005 elections suggests that the distinction between the economic and the political for loan recipients is often blurred on the ground. Indeed, my findings indicate that NGO officers in charge of SFD loans on more than one occasion were simultaneously engaged in voter registration campaigns by the state. Further, loan recipients did not distinguish between the political careers of individual NGO officers and their roles in implementing the SFD’s small business credit initiatives. In one instance, Mrs. Madiha, the director of the social unit in an Ismailiya village and a longstanding member of the NDP, ran for office as an independent candidate after failing to win the party nomination. In the course of my interviews, loan recipients in the village said that they voted for Mrs. Madiha and expressed disappointment at her loss to the Muslim Brotherhood candidate.

This chapter’s quantitative analysis suggests that limited income groups belonging to the lower middle class and not only the poor are targeted by the NDP in its clientelistic efforts to mobilize voters. Further, the fact that SEDO is politicized along NDP clientelistic lines suggests that it is too soon to write off institutionalized patterns of patronage drawing on the state’s resources. Contrary to the widespread argument that long-term patron-client ties have been under-cut in the wake of structural adjustment in

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<sup>796</sup> Ibid., 17-18.

the 1990s<sup>797</sup> and replaced by simple cash for vote exchange by candidates from the business sector<sup>798</sup>, this finding indicates that NDP candidates also facilitate access to the state's external "rents" in return for votes.

Nonetheless, SEDO-based dynamics of clientelism differ markedly from those prevalent under other hybrid regimes with hegemoninc single party systems. I would argue that clientelism should be conceptualized within the larger contexts of a fragmented and weakly institutionalized ruling NDP, as well as the nature of Egypt's electoral system. With regards to the former, Egyptians often sarcastically and insightfully comment that, the NDP is neither national, nor democratic, and not even really a party. Despite its status as the ruling party for over three decades, the NDP has not systematically established a client base linked to the party machine but has instead relied on competitive, loosely-structured networks centered on individual patrons to mobilize voters. According to a party member, "the NDP has a loyal following but its social basis is too small...in order to win elections they count on patronage networks of individual members."<sup>799</sup> Internally as well, despite the introduction of primaries and internal elections for the party's committees and steering offices in 2001, both the party's nomination and selection processes remain opaque and manipulated by the leadership.

The party's weak institutionalization was reinforced by the switch, from a proportional party list system to a majority run-off electoral system in 1990. The change

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<sup>797</sup> Lisa Blaydes, "Who Votes in Authoritarian Elections and Why? Determinants of Voter Turnout in Contemporary Egypt," (paper presented at the Annual Meeting of the American Political Science Association, Philadelphia, PA, 2006).

<sup>798</sup> Amr El-Shobky, "Legislative Elections in Egypt: Indicators and Consequences," *Egyptian Commentary*, no. 46 (2005).

<sup>799</sup> Member of the National Democratic Party Districts Committee *Interview by Author* (Cairo, Egypt: June 30, 2007).

to an individual candidate process has not only raised the stakes for winning individual seats but also weakened party discipline by “removing from party leaders some ability to manage which NDP members would sit in the legislature.”<sup>800</sup> This is the case since under the majority run-off system candidates not nominated by parties can run as independents. In the 2005 elections, the party’s two-thirds majority win (224 seats) was made possible due to the fact that 118 NDP candidates who initially ran as “independents” rejoined the party after the second round. Similarly, in 2000, NDP members who were not officially nominated by the party won 56 percent of the NDP’s total number of seats. Thus, as Virginie Collombier argues, in the context of Egypt’s “hegemonic party-system where the domination of the leading party candidates is ensured, internal struggles for influence between rival clans are not disconnected from the elections and their stakes.”<sup>801</sup>

Rather than constituting a “pre-modern” legacy<sup>802</sup>, the party’s fragmented pattern of institutional development has been deliberately promoted by the ruling elite as a strategy for monopolizing political participation, after the adoption of a majority-run off system in the 1990s, as well as preventing the transformation of the NDP into a viable cohesive power center that may potentially threaten their hold on power. In light of the party’s weak discipline, clientelistic influences on SEDO’s allocation of loans cannot be

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<sup>800</sup> Marsha Pripstein Posusney, "Multi-Party Elections in the Arab World," in *Authoritarianism in the Middle East: Regimes and Resistance*, ed. Marsha Pripstein Posusney and Michele Penner Angrist (Boulder: Lynne Rienner Publishers, 2005), 103-104.

<sup>801</sup> Virginie Collombier, "The Internal Stakes of the 2005 Elections: The Struggle for Influence in Egypt’s National Democratic Party," *The Middle East Journal* 61 (2007).

<sup>802</sup> According to Huntington and Nelson, “A simple theory of political modernization would suggest a clear displacement of more traditional bases (patron-client and communal group) by more modern ones (class and party)” See Samuel P. Huntington, Joan M. Nelson, *No Easy Choice: Political Participation in Developing Countries* (Cambridge, Mass.: Harvard University Press, 1976), 55.



viewed as a top-down process of directing SFD funding towards NDP electoral strongholds but rather should be understood as a bottom-up process of claiming external rents by competitive networks affiliated with the NDP. According to seasoned parliamentarian Munir Fakhry Abdel Nour, “the NDP does not need to systematically direct loans to certain areas in an effort to build support or mobilize voters because it does not have to.”<sup>803</sup> In my interview with Abdel Nour, he stressed that aside from not playing by the rules and resorting to state repression, the NDP relies on the candidates’ own patronage networks to win votes. Further, my interviews with loan recipients confirm that access to loans was facilitated by *wasta*, or informal connections with powerful patrons, regardless of whether they were officially nominated by the NDP or not. The fact that SEDO’s allocations were not directed at MB strongholds to compete for support is consistent with the fragmented nature of the party, the lack of party discipline and the bottom-up process of claiming resources by NDP members. Additionally, in areas of strong support for the Brotherhood, the demand by citizens for SEDO loans is likely to have been significantly lower because interest rates are viewed as “un-Islamic.”

Although the hybrid regime’s move towards direct election of the president in 2005 may have required a sound NDP machine to mobilize voters, reports indicate that the threat of economic sanction was a significant factor in voter turnout in the presidential elections.<sup>804</sup> Indeed, there are signs that the ruling elite have opted to not only maintain fragmented clientelistic networks but also to direct these networks towards further de-

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<sup>803</sup> Munir Fakhry Abdel Nour, *Interview by Author*.

<sup>804</sup> Blaydes, "Who Votes in Authoritarian Elections and Why? Determinants of Voter Turnout in Contemporary Egypt," 9.

politicization of society at least on the short-run. More importantly, recent amendments to the elections' law have ended judicial review, a major setback in terms of electoral transparency signaling the regime's unwillingness to maintain competitive elections after the Muslim Brothers impressive performance in 2005. In fact, both the *shura* elections in 2007 as well as local elections in 2008 witnessed major crackdowns by the state on the opposition to prevent them from fielding candidates. Since the NDP ran uncontested in most districts and voter turnout was low, it is hard to speak of patron-client relations in the sense of exchanging SEDO credit for NDP votes in these instances.

Although clientelism seems to have been geared towards the de-politicization of the citizenry and winning their acquiescent support in these more tightly controlled elections, the clientelistic mobilization of voters is likely to define the NDP's future electoral strategy. Aside from resolving intra-NDP competition, the imminent change in Egypt's leadership will likely necessitate the holding of relatively competitive elections in order to bestow legitimacy on Mubarak's successor. Although constitutional reforms in 2007 paved the way for the country's adoption of a mixed system of proportional and individual districts in the next parliamentary elections,<sup>805</sup> reforms in this direction have

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<sup>805</sup> The initiative was initially widely supported within the NDP and among the opposition. The step aimed to improve the performance of opposition parties, as well as potentially limit the electoral success of the Muslim Brotherhood, which fields individual candidates and does not have official party status. In addition, since the Brotherhood's participation would be partially contingent on forging electoral alliances with opposition parties, the anticipated reform in the electoral system was seen as potentially serving to moderate its stances. See Michele Dunne and Amr Hamzawy, "The Ups and Downs of Political Reform in Egypt," in *Beyond the Facade : Political Reform in the Arab World*, ed. Marina Ottaway and Julia Choucair-Vizoso (Washington, DC: Carnegie Endowment for International Peace, 2008).

recently stalled.<sup>806</sup> As a result, the NDP is likely to remain weakly institutionalized, and clientelistic mobilization will continue to be centered on individual candidates.

## ***VII. Conclusion***

The SFD's distributional politics has been shaped by intra-state struggles, regime security concerns, the state's tendency to fiscally penalize areas with MB support, as well as NDP-linked patronage networks. Indeed, intra-state struggles have helped facilitate access by limited income groups and higher elements of the middle classes to SFD credit programs while restricting access by the poor. Further, the SFD's poverty mapping record suggests that political considerations rather than institutional or technical capacities weigh in significantly when defining geographic targeting priorities. While the advent of neoliberalism in Egypt has not compromised the state's "transformative mapping powers"<sup>807</sup>, or its authoritative power to create categorical rankings of localities based ostensibly on poverty and unemployment levels, the SFD's official 1996 poverty map suffered from two critical flaws. The first is reliance on proximate indicators from the population census without detailed data from household expenditure surveys. The second is neglect of historically accumulated social orders that differentially mold how the market and state affect poverty and unemployment in localities.

Multivariate statistical analysis of the SFD's expenditures in 2005 and 2006 indicates that the number of loans per capita weakly correlate with poverty and

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<sup>806</sup> In recent months, there has been increasing reluctance within the NDP to restructure the elections' system. Instead, the debate has increasingly shifted to improving the electoral representation of women and minority groups. See, Mohamed Moslem, "Legal Changes to Designate Additional Seats for Women in Parliament and Shura Council," *Al Masry Al Youm*, May 30, 2009; and Gamal EssamEl-Din, "Back to Square One," *Al Ahram Weekly*, April 11-15, 2009.

<sup>807</sup> See discussion in Scott, *Seeing Like a State : How Certain Schemes to Improve the Human Condition Have Failed*, 87-88.

unemployment indicators, while political variables have significantly greater explanatory powers. More specifically, the hybrid regime's dual dynamics of excluding the opposition while clientelistically mobilizing supporters have shaped the distribution of the SFD's SME credit programs. The CDP's allocations are geared towards penalizing governorates with Muslim Brotherhood support, while SEDO expenditure patterns reflect NDP-based clientelistic dynamics. Egypt's hidden retrenchment processes have allowed the regime to maintain patronage networks linked to the NDP. Unlike the experience of some Latin American countries, the distribution of SFD credit cannot be attributed to a cohesive party machine targeting particular areas based on electoral need. Rather, competing factions that operate under the broad umbrella of the ruling NDP have influenced the distribution of loans.

## Conclusion

Egypt's political economy of welfare in the neoliberal era displays patterns of nuanced change and continuity. In contrast to the mainstream state "retreat" scenario, I have placed the dynamics shaping the retrenchment process in the political realm, rather than emphasizing the economic logic of structural adjustment or globalization. The neoliberal state in Egypt has been engaged in rewriting the social contract, which has organized state-society relations since Gamal Abdel-Nasser's regime, with an eye on preserving loyalty of the middle classes in the face of widening support by the Muslim Brotherhood within the state's own ranks. Under the Social Fund for Development (SFD)'s banner of "Don't Think Too Much!!!! Your Big Dream... Starts with a Small Business"<sup>808</sup>, the state has attempted to mediate access by limited income groups to the market through extending subsidized credit for start-ups, providing state-supported marketing channels for their products and spreading the "entrepreneurial culture" on university campuses. Efforts aimed at reorganizing state-society relations were manifested through hidden processes of institutional change entailing *dilution*, or reduction of the universal food subsidy benefits, *conversion*, or redirection of old income generation programs to the middle classes as well as bureaucratic *layering*, or the addition of small business development as a parallel institutional track of social provision under the SFD.

The attempt to redefine the social contract, however, remained incomplete and the scope of change in Egypt's insurance-based welfare regime limited. Since Egypt's small

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<sup>808</sup> Social Fund for Development, "Dont Think Too Much!!! Your Big Dream Starts... With A Small Business," *Al Masry Al Youm*, May 16, 2006.

business sector failed to become a source of economic dynamism, the SFD's productivist initiatives were unsuccessful in providing a viable alternative to state employment for young members of the middle classes. The subsidy system, which constituted an egalitarian non-contributory component of Egypt's insurance-based welfare regime was weakened, but preserved; as the state sought to maintain its legitimacy and the loyalty of limited-income groups. The introduction of targeted instruments to social protection has been resisted and did not extend beyond the SFD's production oriented initiatives. While income generation schemes partnering with the SFD have undergone processes of conversion to the disadvantage of the poor, the structural foundations of the employment-based insurance regime were preserved, state spending on pensions rose and privatization reforms were slow. Both the moral economy of social entitlements as well as the regime's power maintenance logic are central to understanding the on-going redefinition of Egypt's social contract in favor of the middle classes.

The dissertation has implications for our understanding of state-society relations in Egypt. Recent studies have suggested the "politics of security" as a framework for understanding state-society relations in Egypt's neoliberal era and called for abandoning the social contract idea. According to Salwa Ismail, the 1990s witnessed the expansion of the politics of security into the social realm.<sup>809</sup> "The everyday politics of the governed was to be brought under control through the intervention of the security apparatus and through a process of mapping out subjects for the purposes of discipline and surveillance."<sup>810</sup> While the poor are increasingly excluded from welfare programs and, indeed, the "politics of security" more appropriately captures their encounters with Egypt's authoritarian state, the

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<sup>809</sup> Ismail, *Political Life in Cairo's New Quarters: Encountering the Everyday State*.

<sup>810</sup> Ibid.

dissertation suggests that this is not the case for limited income groups, or state-linked middle classes. Indeed, Egypt's neoliberal era has been marked by attempts to redraft the social contract along lines that consolidate support for Mubarak's regime among the middle classes. In other words, nuanced analyses of the state's relationship vis- a-vis various groups in society are necessary to capture patterns of change and continuity in Egyptian politics. Rather than dismissing the welfare state's functions, I argue that further research into the dynamics through which the social contract is both challenged and reinvented, how attempts to rewrite it carry differential implications for social groups and are resisted, are all essential to our understanding of the contemporary Egyptian polity.

My analysis highlighted that institutions matter in charting the course of retrenchment even in authoritarian contexts, where political power is centralized. Egypt's welfare institutions have undergone nuanced hidden transformations, with serious implications in terms of access by the poor, but remained in place despite over three decades of economic liberalization and neoliberal reforms since 1991. A moral economy of social entitlements, the legacy of the social contract and the egalitarian insurance-based welfare regime institutions established under Nasser, has continued to mold Egypt's retrenchment process.

That institutions in the Middle East and North Africa (MENA) have a remarkable tendency to adapt has been recently observed by scholars, who emphasize the role of informal networks in facilitating change within the prevailing policy frameworks.<sup>811</sup> According to Heydemann, "institutions are situated within a larger domain of mechanisms, including network structures, that sustain well-established modes of informal politics and

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<sup>811</sup> Heydemann, "Social Pacts and the Persistence of Authoritarianism in the Middle East," 196-197.

greatly enrich possibilities for bargaining between rulers and other political actors.”<sup>812</sup> In a recent study, Oliver Schlumberger has gone a step further by advocating the notion of “patrimonial capitalism” as an alternative to applying mainstream neoclassical economic theory and institutional economics in analyses of the region’s political economies.<sup>813</sup> He uses the concept to denote the notion that both economic processes and outcomes need to be generally understood in light of the macro-political regime features associated with neo-patrimonial polities in MENA.<sup>814</sup> According to this perspective, Egypt’s economic order is defined by personalized power structures, “socially dominant patronage networks as well as the search for *wasta*.”<sup>815</sup>

However, my analysis of Egypt’s political economy of welfare suggests that while networks shaped the distributional politics of the SFD’s discretionary programs, patronage dynamics are less useful for understanding other aspects of retrenchment, such as subsidy reforms. In the case of the subsidy system, retrenchment has not compromised universal access but led to dilution of benefits. Similarly, resistance to pension reforms reflects patterns of path dependence and is another area, where networks analysis is less useful. In other words, the dissertation’s analysis of retrenchment patterns suggests that patrimonial capitalism captures important aspects of distributional politics under the SFD, due to its targeted and discretionary operations. However, the concept cannot be generalized to Egypt’s welfare regime at large. I have argued that institutions still matter since Egypt’s

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<sup>812</sup> Ibid.

<sup>813</sup> Oliver Schlumberger, "Structural Reform, Economic Order, and Development: Patrimonial Capitalism," *Review of International Political Economy* 15, no. 4 (2008): 622-49.

<sup>814</sup> Ibid., 623-625.

<sup>815</sup> Ibid., 626.



political economy of retrenchment has been partially shaped by a moral economy of social entitlements.

I have addressed in this dissertation a number of specific questions. The first is, what were the origins of Egypt's egalitarian insurance-based welfare regime and the critical junctures in its development? I have argued that the origins of the Egyptian insurance-based regime date back to the 1936-1951 period, which marked the rise of the state's social responsibility, through the enactment of a worker's compensation scheme in 1936 and a social security act in 1950, the expansion of state employment as well as the setting up of a subsidy system. These developments were shaped by: power struggles among domestic political actors seeking to win labor's support; resistance by foreign and domestic capital to the extension of workers' rights; as well as the colonial state's quest to maintain stability. In addition, welfare policy prescriptions by the ILO, the UN as well as Keynesian ideas on economic management served to define the parameters of the state's evolving social functions.

The first critical juncture in the welfare regime's development was under Nasser, whose etatist development model established an extensive employment based social security system, maintained a universal food subsidy system and instituted distributive policies collectively known as the "social contract", thereby planting the seeds of the moral economy of social entitlements. I have argued that the state's efforts at creating a power base of support among the middle classes, the etatist development model as well as the regime's socialist ideology, are responsible for the emergence of an insurance-based welfare regime. The gradual expansion of a universal food subsidy system represented the main egalitarian

non-contributory form of assistance accessible by the poor while both income generation schemes and cash transfers have been historically smaller components of the welfare regime.

Hidden retrenchment since the late 1980s represents a second critical juncture in the regime's development. It occurred against the backdrop of a long build-up of pressure, occasioned by the accumulation crisis of the late 1960s, and sharp decline in external rents towards the end of the 1980s. Struggles around the SFD's mission and its operations have shaped the retrenchment process in Egypt. Indeed, the SFD's establishment and the evolution of its mission, have been tied to dilution of subsidy benefits, conversion of mainstream programs as well as the emergence of a parallel social provision track promoting production oriented welfare initiatives on a targeted basis.

I have also explored the roles of globalization, donors and the internationally dominant neoliberal discourse in shaping hidden retrenchment in Egypt. I have argued that although the internationally dominant neoliberal discourse has, to some extent, influenced the retrenchment process, on the whole, external dynamics are not the main factor accounting for welfare regime restructuring. Egypt's linkages to the global economy have imposed weak structural constraints on welfare policymaking due to low levels of trade and investment flows as well as access to significant external rents. The country's access to sizable foreign grants and soft loans as well as the unwillingness of donors to press for specific benchmarks, have also weakened external influence over the retrenchment process. Despite the fact that the SFD's introduction was externally driven and donors exercised conditionality on some occasions, their proposals for overhauling the subsidy system, expanding cash transfer schemes and privatizing pensions did not materialize. Similarly, both the set-up and evolving mission of the SFD cannot be attributed to donor influence. While actors within the state

appropriated the internationally dominant neoliberal ideology to justify scaling back subsidies, promote the establishment of small businesses, and shift the social policy paradigm in a productivist direction, hidden patterns of retrenchment mainly reflected domestic political influences.

Thirdly, the dissertation analyzed the major domestic influences on the political economy of hidden retrenchment in Egypt. I have argued that although retrenchment is rooted in a long-standing accumulation crisis, which culminated in the late 1980s, the process and its patterns cannot be attributed to economic dynamics. This is the case since, the neoliberal reform agenda has not been associated with cuts in social expenditure levels but rather the restructuring of social spending patterns and nuanced institutional shifts on the ground. Further, the switch in Egypt's development strategy from statist ISI to market-led growth has not compromised the structural foundations of the prevailing insurance-based welfare regime, as pension coverage rates and public spending remained high while the state has, to a significant extent, maintained its role as the major employer in the economy. As for fluctuations in rents and growth levels, they do not explain retrenchment patterns. This is the case since hidden retrenchment occurred in the early nineties when both growth and external rent levels were relatively high and, indeed, their decline in latter years did not coincide with the onset of new or more explicit retrenchment patterns.

To the contrary, I contend that the prevailing moral economy of social entitlements and the regime's power maintenance logic in the face of widening Muslim Brothers (MB) support within the state, have shaped the retrenchment process. In fact, social transfers in Egypt remain constitutive of the very idea of citizenship in the polity and a moral economy of social entitlements, or collective beliefs about social citizenship entitlements and just

distributional policies, prevails. In light of this legacy of social contract policies and the on-going struggle between Mubarak's regime and the MB, the retrenchment process has been geared towards preserving the loyalty of limited income groups.

The final question addressed in the dissertation is, what are the dynamics driving the micro-politics of retrenchment, as exemplified by the example of the SFD's business credit programs? I have highlighted three sets of important dynamics shaping discretionary distributional politics on the ground. First, the selection of targeted constituencies has been influenced by intra-state struggles between the SFD, on the one hand, and its implementing partners (the banks and NGOs), on the other hand. I contend that these struggles have reinforced the bias in the SFD's allocations in favor of "limited income groups." Second, the SFD's poverty mapping record reveals that regime security considerations, rather than international influences or technical capacities, significantly shape the definition of geographic targeting priorities.

Lastly, based on multivariate analysis of expenditure patterns, I make the case that spatial distribution of the SFD's micro and small loans, are influenced by political considerations rather than poverty and unemployment indicators. While micro-credit allocations are geared towards penalizing governorates with Muslim Brotherhood support, the bulk of the SFD's distribution, which falls under the Small Enterprise Development Organization (SEDO), reflects NDP-based clientelistic dynamics. Unlike the experience of some Latin American countries, the politicization of SFD credit cannot be attributed to a cohesive party machine targeting particular areas based on electoral need. The distribution of loans is, rather, influenced by competing decentralized clientelistic networks operating under the broad umbrella of the ruling NDP. This, in turn, reflects the party's deliberately weak

institutional development and the high stakes of the majority run off electoral system. While the exchange of SFD small business credit for NDP votes has been evident in the 2005 elections, Egypt's heightened authoritarianism in the more recent *Shura* and local elections in 2007 and 2008 point to the increasing prevalence of patronage ties geared towards depoliticization of voters. Given the imminent change in the country's leadership and the need to bestow legitimacy on Mubarak's successor, however, clientelistic mobilization will likely be a major NDP strategy in future elections.

I have argued that the politics surrounding retrenchment and social protection have been obscured by a broad ideological consensus that civil society has replaced the state as the site of social provisioning since the nineties. Analysts of the politics of welfare in the Middle East have predominantly focused on exploring the response of civil society to the state's "retreat" since the 1990s. Starting from the implicit premises that the adoption of neoliberal reforms has entailed the dismantling of social protection policies and that globalization has undermined the state's power, studies have focused on exploring Islamist activism, kin-based mobilization as well as survival tactics among the poor.<sup>816</sup> While this literature captures important elements of reality, by shifting the locus of analysis to social actors, it does not address important reconfigurations in the region's welfare regimes.

The puzzle I have addressed in the dissertation is why have processes of welfare retrenchment unfolded along contrasting patterns across MENA? I suggest that there are two

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<sup>816</sup> Bayat, "Activism and Social Development in the Middle East;" Baylouny, "Creating Kin: New Family Associations as Welfare Providers in Liberalizing Jordan;" Ismail, *Political Life in Cairo's New Quarters: Encountering the Everyday State*; and Clark, *Islam, Charity, and Activism: Middle-Class Networks and Social Welfare in Egypt, Jordan, and Yemen*.

distinct patterns of welfare restructuring in the region.<sup>817</sup> On the one hand, Egypt, Morocco, and Tunisia have pursued hidden retrenchment whereby, pre-existing social policy frameworks anchored on social insurance and subsidies were maintained but buttressed with targeted production oriented initiatives. On the other hand, Yemen and Jordan, have both implemented explicit retrenchment reforms. Both countries witnessed major institutional shifts in their welfare regimes, entailing the unification of pensions schemes and the restructuring of their financing as well as canceling food subsidies and expanding citizenship-based consumption-oriented social assistance schemes.

My analysis of the Egyptian case has demonstrated that “hidden” changes in welfare programs had serious repercussions in terms of access by the poor and were geared towards consolidating social protection benefits for the middle classes. The retrenchment process has been influenced by neoliberal ideas, but primarily dictated by the prevailing moral economy of social entitlements as well as the state’s power maintenance logic in the face of widening support for the MB among the middle classes. The hypotheses I derived based on the Egyptian case require further exploring in other contexts, in order to assess both their validity and generalizability. With this important qualification in mind, I make two preliminary arguments regarding contrasting regional retrenchment patterns and propose a starting point for future comparative analyses. The first argument is that while the drive towards retrenchment across MENA is rooted in accumulation and financial crises, both the degree and patterns of change cannot be reduced to economic dynamics. Secondly, although globalization, donors and the prevailing neoliberal development discourse are likely to

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<sup>817</sup> For an overview of welfare reforms across the region in recent year see, World Bank, *Reducing Vulnerability and Increasing Opportunity: Social Protection in Middle East and North Africa*; and Robalino, Whitehouse, and World Bank, *Pensions in the Middle East and North Africa: Time for Change*.

influence retrenchment to varying degrees, external factors cannot fully explain patterns of re-structuring. Instead, I propose exploring the state's social basis of power and the regime's power maintenance logic, as starting points for future comparative analysis of retrenchment patterns in MENA. My findings suggest that where the middle classes have constituted the main social basis of power for the state, the regime's power maintenance logic will dictate hidden and limited patterns of retrenchment. Since major restructuring of the pension system would directly affect the position of this class, reforms will be resisted. Similarly, proposals to fundamentally restructure the universal subsidy system and gradually replace it with targeted non-contributory cash support are less likely to materialize. As for targeted production-oriented initiatives, they are likely to benefit the middle classes as opposed to the poor.

Aside from Egypt these dynamics seem to be broadly applicable to Morocco and Tunisia, since both countries are lower middle-income countries with sizable middle classes.<sup>818</sup> Recent official household surveys estimated that the middle class represents as much as 70 percent of Tunisia's population and 53 percent in Morocco.<sup>819</sup> Both countries instituted large public sectors and the state played a dominant role in the economy fueled by sizable revenues accruing from the export of phosphates in Morocco and oil in Tunisia.<sup>820</sup> In both cases relatively large middle classes developed, as the state emerged as the leading

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<sup>818</sup>Shana Cohen, "Alienation and Globalization in Morocco: Addressing the Social and Political Impact of Market Integration," *Comparative Study of Society and History* 45, no. 1 (2003): 168-189; Kenneth J. Perkins, *A History of Modern Tunisia* (New York: Cambridge University Press, 2004); and Richards and Waterbury, *A Political Economy of the Middle East*.

<sup>819</sup>Agence Maghreb Arabe Presse, "High Commissioner for Planning: Middle Class Makes up of 53% of Moroccan Population," July 5, 2009; and Jamel Arfaoui, "Poverty Rate Down, Middle Class Growing in Tunisia," *Maghreb*, July 27, 2007.

<sup>820</sup>Richards and Waterbury, *A Political Economy of the Middle East*, 189-91, 96-97.

employer in the economy. Indeed, “the highest government wages are found in the Middle East and North Africa, about one third higher than comparable private compensation.”<sup>821</sup> In the late 1980s, the state sector absorbed 70 percent of the urban workforce in Morocco<sup>822</sup> and public employment accounted for almost a quarter of total employment in the Tunisian economy as a whole.<sup>823</sup> By the late 1990s state employees represented only 3.1 and 4.1 percent of the total population in Morocco and Tunisia, but the relatively high ratios of public to total employment, estimated at 11 and 16 percent respectively reveals the significance of state-linked middle classes.<sup>824</sup>

Preliminary evidence indicates that Morocco and Tunisia pursued patterns of retrenchment consistent with the interests of middle-class groups. Aside from largely preserving the insurance-based pension system, universal subsidies continued to represent the biggest component of the welfare regime. Both countries have extended self-targeting through shifting subsidies to narrowly defined items of a lower quality, or liberalizing the sale of unsubsidized higher quality goods, in order to attract demand from wealthier households who then consume less of the subsidized products.<sup>825</sup> Nonetheless, expenditure on the universally accessible subsidies continued to surpass cash assistance for the poor. In Morocco allocations for the food subsidy system remained constant at 1.7 percent of the GDP whereas in Tunisia self-targeting efforts were associated with a slight decline from 2.4

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<sup>821</sup> Schiavo-Campo, De Tommaso and Mukherjee, "Government Employment and Pay in Global Perspective," v.

<sup>822</sup> Karim Laraki, *Food Subsidies: A Case Study of Price Reform in Morocco* (Washington, D.C.: World Bank, 1988), 7.

<sup>823</sup> International Labour Office, *World Labour Report 1993* (Geneva: International Labour Office, 1993).

<sup>824</sup> Schiavo-Campo, De Tommaso and Mukherjee, "An International Statistical Survey of Government Employment and Wages," 4.

<sup>825</sup> Laura Tuck and Kathy Lindert, *From Universal Food Subsidies to a Self-Targeted Program: A Case Study in Tunisian Reform* (Washington, D.C.: World Bank, 1996), 37.



to 1.7 percent over the 1990s. In contrast, cash assistance stood at a mere 0.1 percent of the GDP in Morocco and 0.5 percent in Tunisia in the 1990s (See Table 1.4). Rather than catering to the immediate consumption needs of the poor, new social protection initiatives have been geared towards promoting production, as a long-term poverty alleviation strategy. Indeed, subsidized micro-finance and small business lending programs through banks have been introduced in both countries.<sup>826</sup>

In contrast, my argument suggests that in the cases of Jordan and Yemen, the retrenchment process was deeper and explicit, entailing the overhaul of old policy frameworks, since the middle classes do not constitute these states' main social bases of power. In these cases, the adoption of pension reforms was more tenable, due to the politically marginal status of the middle classes in Jordan, who are predominantly of West Bank Palestinian origins, and the small size of the middle class in Yemen, which has slowly developed since the 1980s. Indeed, both countries have closed their generous civil service pension systems to new entrants, merged the schemes for government employees and for private sector workers, as well as created autonomous investment policies for the newly integrated pension schemes.<sup>827</sup> In parallel, both states have also moved towards liberalizing their systems by allowing life insurance companies to offer pension products.<sup>828</sup> Similarly,

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<sup>826</sup> Tzannatos and Kaur, "Welfare State Policies in the Middle East and North Africa," 167; and Béatrice Hibou, "Domination & Control in Tunisia: Economic Levers for the Exercise of Authoritarian Power," *Review of African Political Economy* 33, no. 108 (2006):185-206.

<sup>827</sup> Jordan has adopted pension reforms since 1995 and the process gained momentum in 2002-2003. Yemen embarked on reforming the pensions' system in 1999, but the integration of pension schemes was reversed in 2005. This is the case, since the merging of schemes proved financially unviable, and implied a transfer of liabilities from the civil service scheme, which is more mature and has higher wages, to the private sector scheme. See Robalino, Whitehouse, and World Bank, *Pensions in the Middle East and North Africa: Time for Change*.

<sup>828</sup> Ibid.

abandoning universal subsidies and introducing consumption oriented cash support for the poor, is in line with the ruling regimes power maintenance logic given the political importance of narrow tribal constituencies in Jordan and Yemen. While both countries have experienced significant declines in rents levels around the time of welfare reform<sup>829</sup> based on my analysis of the Egyptian case, political dynamics seem likely to have shaped their retrenchment outcomes.

To what extent have the Egyptian state's attempts to reinvent the social contract served to effectively sustain authoritarian rule? The dissertation offers empirically grounded insights about the persistence of authoritarianism in the region, beyond the high repressive capacity of states.<sup>830</sup> My analysis of the politics of hidden retrenchment in Egypt is a contribution to the emerging post-democratization literature on the region.<sup>831</sup> This literature has sought to explore why authoritarianism has been a durable and successful form of rule in the region without falling into the trap of the democratic transitions literature. In this vein, I have highlighted the role of social policies and the retrenchment process in sustaining Egypt's authoritarian welfare regime in the neoliberal era. I argue that the ongoing redefinition of the state's social role and restructuring of the welfare regime have allowed it

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<sup>829</sup> Brad Glasser, "Foreign Aid and Reform: The Diverging Paths of Egypt and Jordan in the 1990s," *European University Institute Working paper* No2001/20 (2001); Kamil A. Mahdi and Helen Lackner, *Yemen into the Twenty-First Century: Continuity and Change* (Reading: Ithaca Press, 2007).

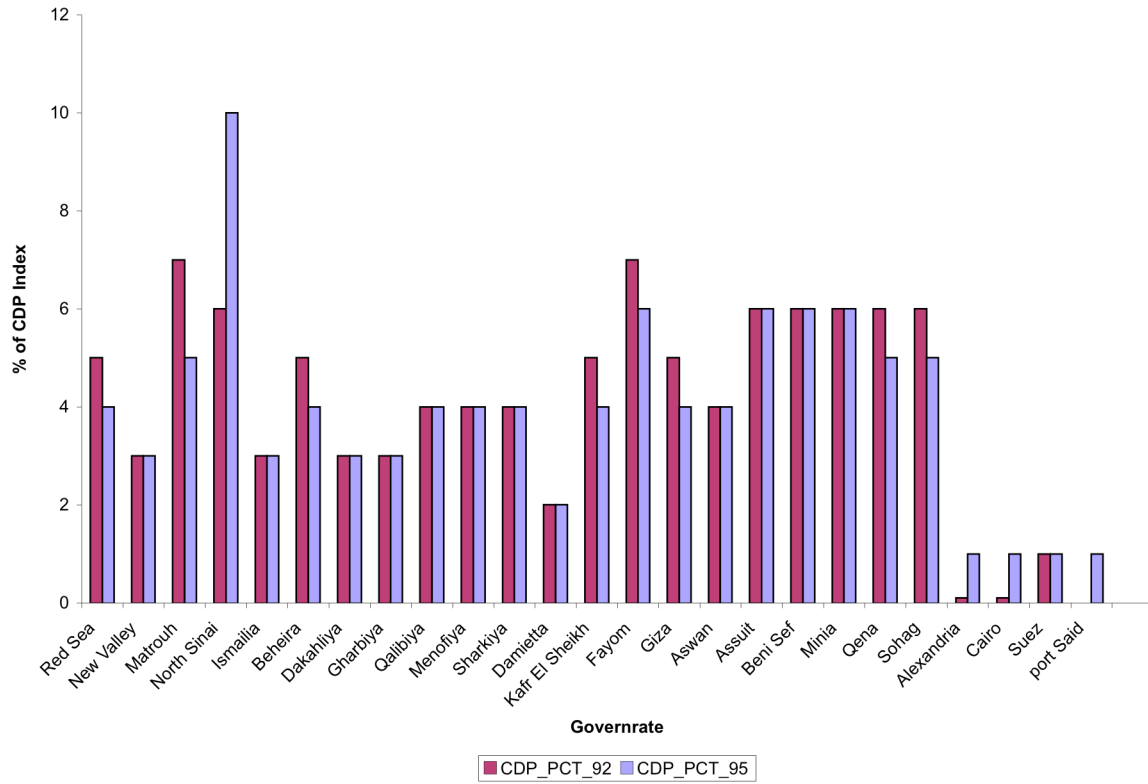
<sup>830</sup> Bellin, "The Robustness of Authoritarianism in the Middle East: Exceptionalism in Comparative Perspective;" and Burhan Ghalioun, "The Persistence of Arab Authoritarianism," *Journal of Democracy* 15, no. 4 (2004): 139-157.

<sup>831</sup> Schlumberger, *Debating Arab Authoritarianism: Dynamics and Durability in Nondemocratic Regimes*; Kienle, *A Grand Delusion: Democracy and Economic Reform in Egypt*; Posuseny, "Globalization and Labor Protection in Oil-Poor Arab Countries: Racing to the Bottom?;" Marsha Pripstein Posusney and Michele Penner Angrist, *Authoritarianism in the Middle East : Regimes and Resistance* (Boulder: Lynne Rienner Publishers, 2005); and Raymond Hinnebusch, "Authoritarian Persistence, Democratization Theory, and the Middle East: An Overview and Critique," *Democratization* 13, no. 3 (2006): 373-9.

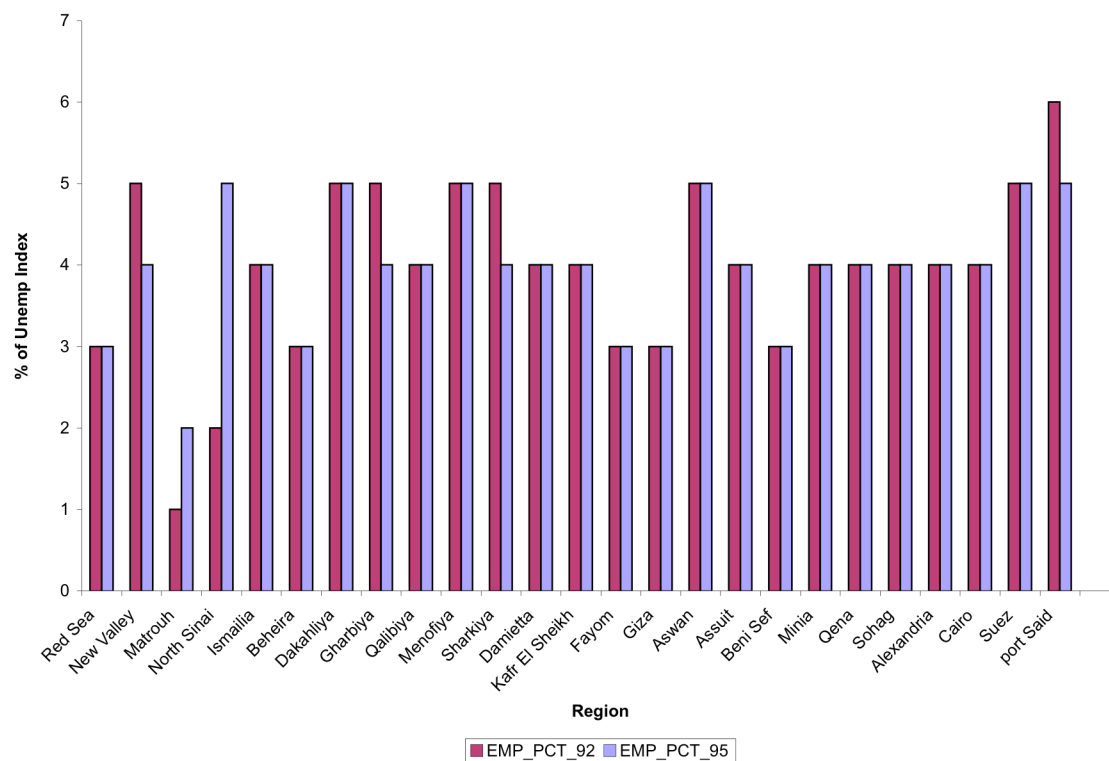
to channel resources to its traditional base of support, the middle classes. Micro-level analysis of the politics of retrenchment highlights the role of discretionary welfare programs in maintaining patronage networks under the umbrella of the ruling NDP. If the region moves towards greater adoption of targeted and discretionary welfare programs, patron-client relations are likely to increasingly influence the politics of distribution. Both the extent of the move towards adopting targeted social protection, as well as whether these programs would be on the consumption or production sides, are likely to be primarily shaped by the regime's power maintenance logic, and the legacies of insurance-based welfare regimes.

## Appendix

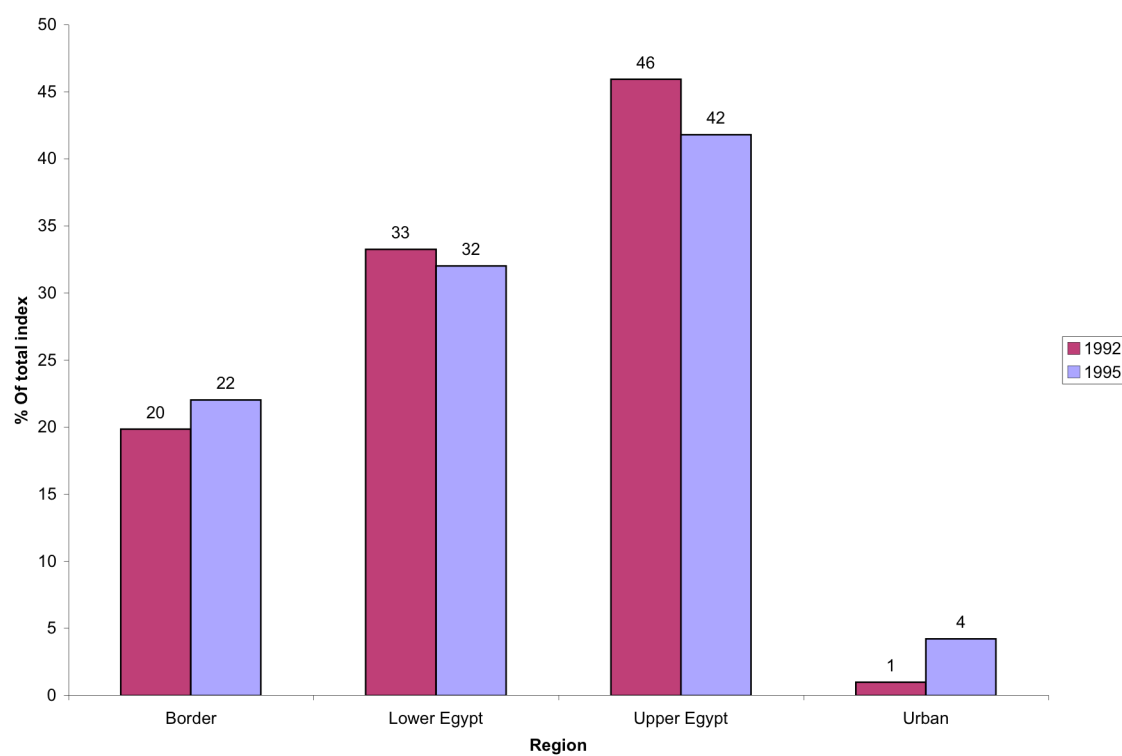
**Figure 5.1: Comparing 1992 to 1996 Poverty Indices at the Governorate Level**



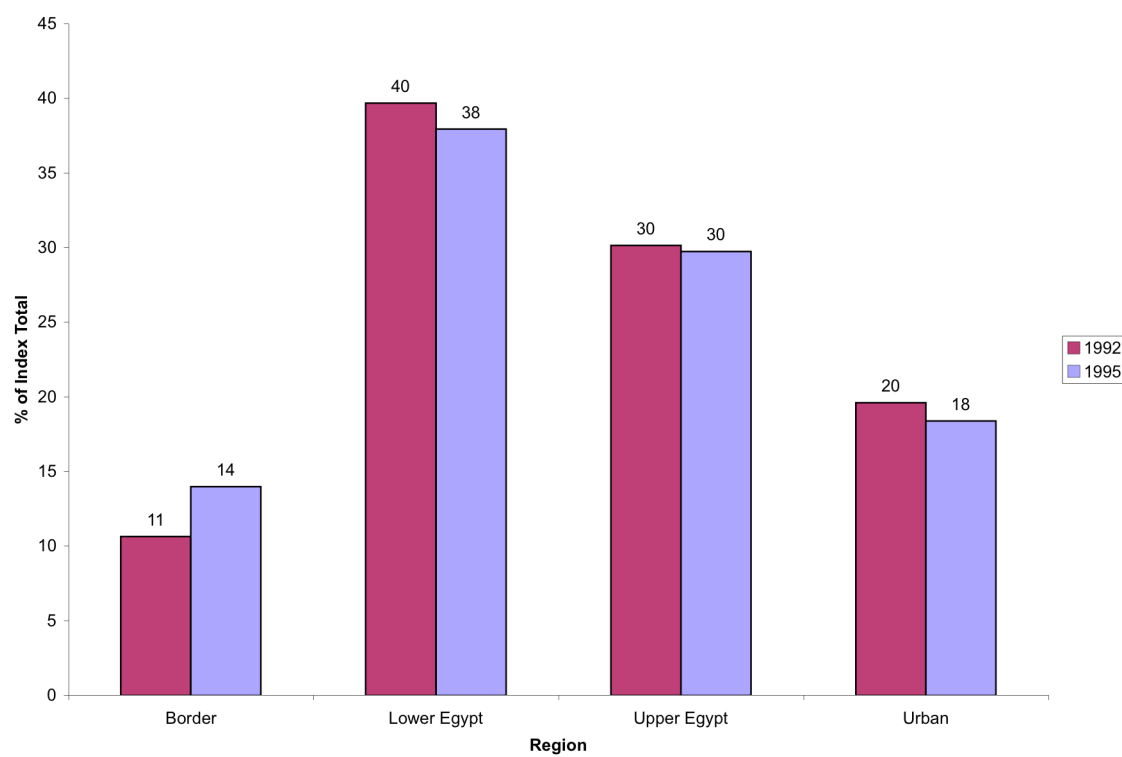
**Figure 5.2: Comparing 1992 to 1996 Unemployment Indices at the Governorate Level**



**Figure 5.3: Comparing 1992 to 1996 Poverty Indices At the Regional Level**



**Figure 5.4: Comparing 1992 to 1996 Unemployment Indices At the Regional Level**



**Figure 5.5: Comparing CDP Actual to Targeted Allocations at the Regional Level**

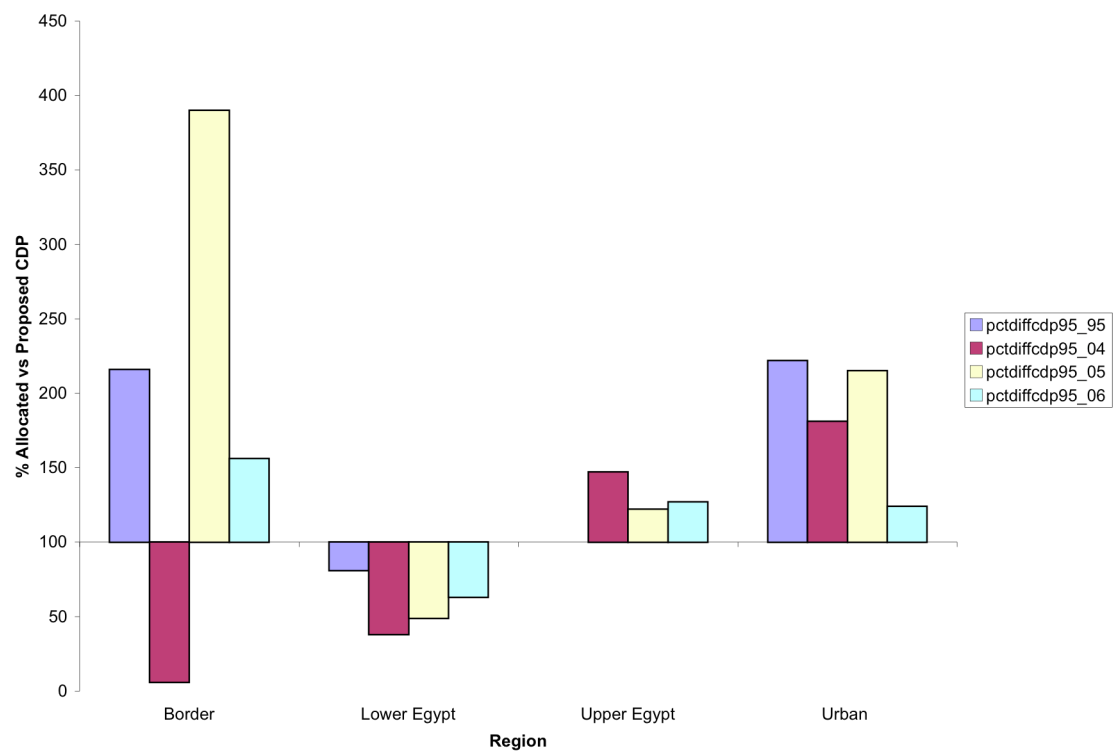
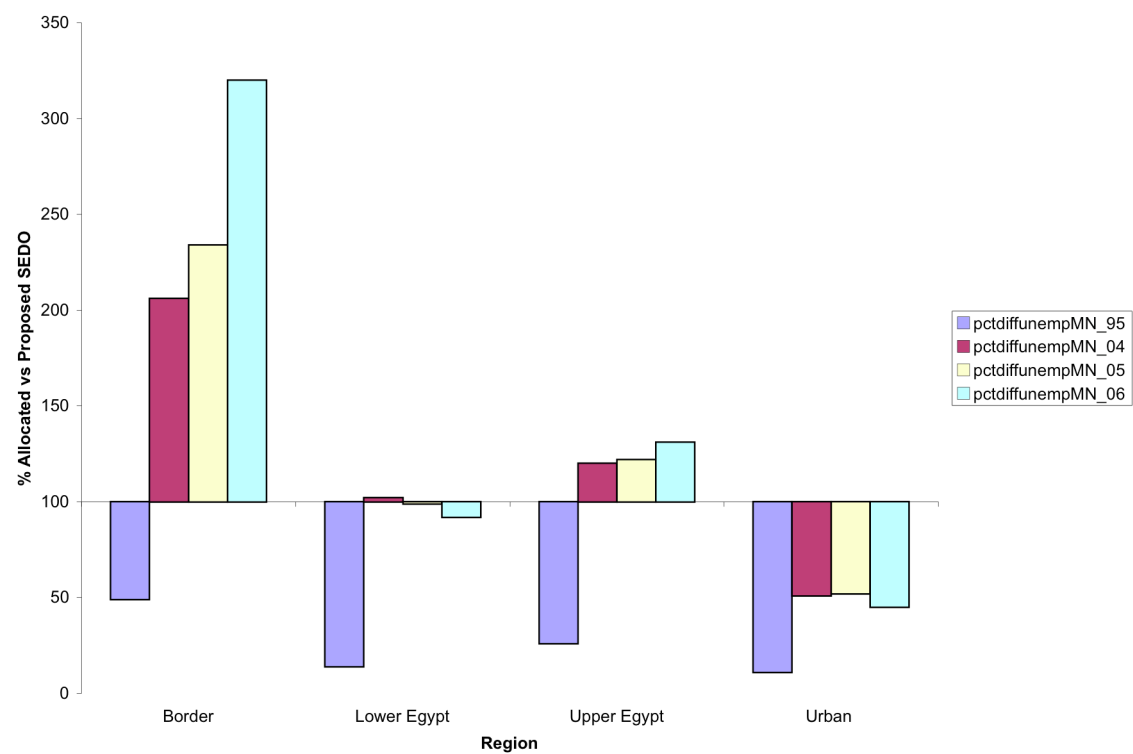




Figure 5.6: Comparing SEDO Actual to Targeted Allocations at the Regional Level



## **Variables Used in the Regression Analysis of the RPCC Scale<sup>832</sup>**

1. Log of average household size
2. Log of average household size squared
3. Percent Elderly males
4. Continuous Percent Elderly females
5. Continuous Percent children
6. Continuous Percent Youngsters
7. Continuous Percent adult females
8. Continuous Real Dependency ratio
9. Continuous Unemployment rate
10. Continuous Primary enrolment rate of males
11. Continuous Primary enrolment rate of females
12. Continuous Percent illiterate males
13. Continuous Percent illiterate females
14. Continuous Percent males with university education
15. Continuous Percent females with university education
16. Continuous Percent male wage and unpaid family workers in agriculture in private sector
17. Continuous Percent male wage employees in construction in private sector
18. Continuous Percent male child/adolescent labor (6-14 years)
19. Continuous Percent female child/adolescent labor (6-14 years)
20. Continuous Percent children headed households (less than 15 years old)
21. Continuous Percent permanent female headed households
22. Continuous Percent households with an elderly living alone
23. Continuous Percent household heads that can read & write
24. Continuous Percent household heads with primary education
25. Continuous Percent household heads with secondary education
26. Continuous Percent household heads with above secondary education
27. Continuous Percent household heads with University or higher education
28. Continuous Percent of household heads wage employed in agriculture in private sector
29. Continuous Percent of household heads wage employed in construction in private sector
30. Continuous Number of persons per room (density)
31. Continuous Percent of rural type houses
32. Continuous Percent of untraditional type houses
33. Continuous Percent of room-type houses
34. Continuous Percent household connected to public water network
35. Continuous Percent household with private kitchen
36. Continuous Percent household with private Toilet
37. Continuous Percent household with private bath

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<sup>832</sup> Assaad, "Poverty and Geographic Targeting in Egypt: Evidence from a Poverty Mapping Exercise ".26.

38. Continuous Percent household with a car
39. Continuous Percent household with a washing machine
40. Continuous Percent household with a refrigerator
41. Continuous Percent household with a Freezer
42. Continuous Percent household with an airconditioner
43. Continuous Percent household with a colored TV
44. Continuous Percent with a black & white TV
45. Continuous Percent household with a VCR
46. Continuous Percent household with a satellite dish
47. Continuous Percent household with a personal computer
48. Binary PSU in an urban area (rural = omitted category)
49. Governorates dummies Binary 26 governorate dummies (Cairo= omitted category)
50. Urban and governorate dummies Binary Interaction terms of urb\_rural and governorate dummy variables

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