Informalizing Public Welfare: The Role of Egypt’s Social Fund for Development

Asya El-Meehy
PhD Candidate
Department of Political Science
University of Toronto

Final Technical Report

IDRC Doctoral Research Awards
Award #103342-99906075-024
In light of research in Egypt between July 2005 and January 2007, both the rationale for the puzzle and scope of my dissertation research on “Informalizing Public Welfare: The Role of Egypt’s Social Fund for Development” have evolved. This report begins in section one by briefly sketching the problematique the study engages with, outlining the revised rationale for the puzzle, the modified scope of research as well as the four research questions the analysis revolves around. In sections two and three, the methodology of research and project outputs are addressed respectively. In section four, the preliminary findings of the research are outlined in five subsections: general findings, external dynamics, role of class actors, neopatrimonialism and state-reformation.

1.0 Research Problem:

The main concern of my dissertation is to analyze the driving dynamics behind structural changes in Egypt’s welfare regime. Changes to the state’s welfare regime typically recast of relations between the state, the market, and civil society. More fundamentally, they also entail the “remodeling of the state, the remodeling of its foundations, structures and functions in a new, changing economic environment”\(^1\). Informed by this theoretical understanding of the politics of social provision, my research engages with the following problematique: why has the Egyptian state pursued the informalization of its welfare regime, under the umbrella of the recently established Social Fund for Development (SFD), despite its long-standing records of concentrating power politically and resisting full-fledged free market reforms since the inauguration of infitah in 1974?

Egypt’s public welfare regime, indeed, witnessed a multi-faceted process of restructuring, or more appropriately informalization, since 1993 whereby the boundaries between state and society as well as the roles of social actors have been redefined. Welfare policy mandates and administration have at least formally shifted to the externally funded SFD, which operates autonomously from line ministries in conjunction with local NGOs, based on the principles of demand driven service provision. Further, the welfare regime’s orientation has been reformulated towards improving market access by the marginalized and

---

promoting the establishment of Small and Medium Enterprises (SMEs), which predominantly operate in the upper tier of the informal economy. While these enterprises meet the minimal requirement of legal registration, according to observers, they in fact often operate “informally” in several important respects, like employment contracts and social security coverage for workers. In addition, the survival of SMEs in business often hinges on social networks as well as norms of reciprocity and informality due to the absence of links to large businesses and limited access to a broad clientele based on a purely exchange based logic. Lastly, the lack of a legally entrenched formal guarantee of support under the SFD programs represents another aspect of informalization and marks a clear departure from the earlier institutionalized universalism of social citizenship rights to pensions, incomes, subsidized health services...etc.

That said, Egypt’s politics of social provision does not signal the eclipse of its traditional welfare programs. Indeed, the state while seeking to introduce the informalization of some of its anti-poverty programs, along the lines outlined above, has nonetheless maintained its institutionalized hegemony in the area of supply driven welfare services. Although declining in real value when factoring in the per capita share, the state’s functions in this area remain socially constructed as ‘entitlements’ by recipients as citizens of the state. Indeed, using the linear criterion of expenditures as an indicator for the state’s commitment to welfare, Egypt’s state does not seem to have retrenched over the nineties contrary to the mainstream retreat scenario. Although inequality trends and the success of the state’s efforts at alleviating poverty have been the subject of intense debate, public expenditure on social spending as a percentage of GDP has in fact risen over the nineties. Accordingly, between 1989 and 1991, social expenditure as a percentage of GDP is estimated to have averaged

---

2 Poverty trends in Egypt over the nineties have been the subject of debate for an overview see Ray Bush, "Poverty and the Neoliberal Bias in the Middle East and North Africa," *Development and Change* 35, no. 4 (2004).

3 According to UNDP statistics, despite the cuts in subsidies between 1987 and 1997, 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](http://www.ilo.org/public/english/protection/socfas/research/stat/table14.htm)
12.8%, with the same figure averaging 13.7% between 1991 and 1995. Furthermore, public employment patterns show that despite efforts to limit hiring and downsize the public sector, the share of civilian government employment in Egypt has continued to rise rapidly with an annual increase rate of 5.3% between 1988 and 1998. Indeed, the public sector has remained the biggest employer in Egypt and in the Middle East more broadly, with the region boasting the highest levels of government employment worldwide in the nineties. Accordingly, evidence from the Egyptian case supports Gupta et al’s conclusion that “in a postcolonial context with high rates of poverty and a neoliberal economy with high rates of growth, what we witness is not the end of welfare and its replacement with workfare but the simultaneous expansion of both kinds of programs.”

The research seeks to shed further light on the contradictory unfolding of neoliberalism in Egypt’s case by specifically exploring the driving dynamics behind the authoritarian state’s adoption of a welfare policy focused on aggressively promoting the SME sector despite largely maintaining its hold over the post-reform market and political arenas. This question is arguably a pressing one since the target populations for SFD’s welfare oriented SME program are politically risky groups. They are primarily university graduates, who are no longer guaranteed public employment, workers who lost their jobs as part of structural adjustment in addition to returnee migrant workers who lost their jobs in Iraq after the 1991 Gulf war.

1.1 Revised Rationale for Puzzle:

The original rationale for the study was the contradiction between the state’s long track record of resisting full-fledged reforms, on the one hand and its attempts at promoting informality among politically risky groups, who constitute the SFD’s target groups, on the other. Evidence from fieldwork as well as recent secondary sources served to revise the

---

8 They are primarily university graduates, who are no longer guaranteed public employment, workers who lost their jobs as part of structural adjustment in addition to returnee migrant workers who lost their jobs in Iraq after the 1991 Gulf war.
rationale for the puzzle, while rendering the question the research engages with even more problematic. Indeed, my findings so far shed serious doubts on the official rationale for SME promotion under the SFD, which emphasizes firstly their role in job creation, secondly their impact in terms of poverty alleviation and lastly the overall development of the small business sector. As elaborated below, all three sets of official grounds for the promotion of SMEs in Egypt were found to be empirically questionable a conclusion that renders the task of policy tracing even more pressing.

In fact, the SFD makes the case that the start up of small businesses creates on average four jobs. While many seem to agree that on establishment SMEs create the highest number of jobs in their life span, the four jobs figure has been contested by some experts as inflated. Further, the long term link between SMEs and job creation has been called into question in cross country analyses indicating that while gross job creation rates among SMES are high, so are their gross destruction rates.\(^9\) Along similar lines, a recent quantitative study on Egypt (conducted in 3 governorates outside Cairo) shows that only 7.3% of SMEs add 1 or 2 workers while 6% lose labor in the course of the average life span of 17 years for the enterprise. In other words, only a net of 1.3% of the enterprises report growth of workforce.\(^10\) In addition, a critical quantitative study from the World Bank suggests that there is no evidence that small businesses tend to adopt labour intensive production techniques; many small businesses tend to be more capital intensive than their bigger counterparts in the same industry. Rather, it is suggested that labor intensity is a function of the industry type rather than enterprise size.\(^11\)

On their role in poverty alleviation, despite the fact that a recent impact assessment study on the SFD indicates that 57% of loan recipients were poor (i.e. household income size below 400LE) or ultra poor (household income below 300 LE),\(^12\) the direct link between SME loans and improvements in income levels seems questionable on several grounds. These include 1) the fact that the target for SFD programs are not the poor but the lower middle classes or so called “limited income groups” 2) the fact that SFD lending is

\(^11\) See Hallberg
happening through banks, which have stringent collateral requirements. In fact, a study conducted on beneficiaries of the SFD/SEDO loans in 2001 indicated that taking into account a poverty gap of LE 303, the total amount of loans should be 6.5 the allocated amount in order to achieve perfect targeting.\(^{13}\) Furthermore, comparing the disbursed amounts for each governorate relative to their shares of eligible population, which is calculated using the unemployment rate, deprivation and income poverty indices, reveals that the targeting of loans favors urban governorates and borders regions.\(^{14}\) Lastly, on a more general level, recent cross-country quantitative studies show that there is no conclusive evidence that SMEs alleviate poverty or reduce inequality.\(^{15}\)

As for their indirect implications in terms of poverty alleviation, this is contingent on the extent of their growth generating potential, which is contested empirically as well in recent cross-country analyses showing that while there is a positive association between the importance of the SME sector and the levels of GDP per capita growth, the relationship does not necessarily demonstrate causality.\(^{16}\)

Thirdly, on the question of the small business sector development, several factors seem to point to the state’s pursuit of a welfare oriented approach to this sector as opposed to a private sector development approach. In fact, the recent debates surrounding the drafting of a national strategy for SME development point to the state’s hesitation to approach the promotion of SMEs as part of overall private sector development efforts. Further, the state’s targeting of startups for fresh university graduates and the adoption of an “off the shelf” approach to project selection (ie: applicants are not expected to provide feasibility studies for proposed projects but rather select from ready made blueprints the SFD keeps) point to its welfare oriented approach, which focuses on the numerical multiplication of businesses rather than their growth potential. The poor technical assistance (in the areas of marketing, management, quality of products…etc) provided to these businesses, the lack of attention to developing linkages with big businesses and the overwhelming emphasis on credit all as well

\(^{14}\) Ibid.
\(^{15}\) Thorsten Beck, Asli Demirguc- Kunt and Ross Levine, SMEs, Growth and Poverty: Cross Country Evidence 2004 (draft posted at World Bank web site).
\(^{16}\) Ibid.
seem to indicate that policymakers don’t approach these businesses from the perspective of private sector development.

In sum, the state’s official rationale for small business promotion focuses on these enterprises as a vehicle for job creation, poverty alleviation and small business development. All three grounds, however, are empirically questionable based on recent quantitative analysis and my fieldwork so far. Given such a mixed picture regarding the relevance of SMEs to the state’s proclaimed goals as well as the rise of revisionist critiques of the logic for SME promotion even from within the World Bank, the question remains: Why has the state promoted the establishment of these largely informal enterprises? This puzzle is arguably all the more pressing in light of the fact that a recent study put the spread of poverty in 2004/2005 at 19% of the Egyptian population and demonstrated increasing levels of poverty and inequality since the mid-90s.¹⁷

1.2 Revised Research Scope:

When the research project was originally designed and articulated in the dissertation proposal, my intention was to engage in policy analysis as well as explore the implications of the state’s SME promotion policies for political liberalization on a secondary level. With the progress of the research and upon consultation with my advisor, however, I have opted to narrow down the scope of the research to more sharply focus on policy-tracing and exploring the driving dynamics behind the state’s adoption of SME promotion policies under umbrella of the SFD.¹⁸ I have found that this actually makes my research tasks more manageable and allows me to more comprehensively map policy trends, elaborate the context (i.e. the nature of Egypt’s liberalizing political economy) as well as most importantly identify causal dynamics at work in greater depth.

Due to the project’s initial focus on the SFD’s Small Enterprise Development Organization (SEDO) and my interest in analyzing changes in NGO-state relations as a potential explanation for the research puzzle, I planned to explore the NGOs experience in the field of SEDO financed incubators. This decision was due to the fact that the great majority of SEDO’s intermediaries in its lending activities are banks while the role of NGOs

¹⁸ Please refer to my letter dated August 21 which responded to the reviewers’ comments on this issue.
is restricted to technical assistance, such as running incubators. Although I managed to visit 4 out of the 7 incubators operating under the auspices of the SFD and held interviews with managers and entrepreneurs at these incubators, I could not hold interviews with Egyptian Association for Incubating Small Businesses (EAISB), which is formally in charge of the majority of these incubators. The reluctance of EAISB members may have been related to the fact that the timing of my attempts to interview them coincided with the non-renewal of two of the association’s contracts with the SFD. Accordingly, in order to gain a better grip on the NGO-state angle, I redefined the research focus to include micro-lending activities under the SFD’s Community Development Program, which works through NGOs, in addition to SEDO, which primarily targets small businesses.19

1.3 Research Questions:

Anti-poverty policy choices are constrained by the logic of the prevailing development strategy, which places broad structural constraints as well as ideational boundaries on policymakers. Under the neo-liberal strategy, since the locus of investment is much more strongly foreign, states seek to show commitment to “sensible” macroeconomic policies, fiscal discipline in addition to respect for property rights. Studies show that these structural factors, however, do not necessarily translate into the homogenization of social assistance programs since states have quite a lot of room for maneuver within these constraints. Why did policy actors in the Egyptian case opt for the promotion of SMEs under the umbrella of the SFD?

The research questions the study focuses on revolve around four themes that lie at the heart of my dissertation. By refocusing the analysis on the state level, these questions respond to a critical gap in the literature on the politics of welfare in Egypt, which predominantly assumes the irrelevance of the state and focuses on exploring the social response of the poor to their exclusion as well as analyzing Islamist activities that have

19 In light of the SME definition in law 141/2004, which broadly defined the micro-business category as those with less than 50,000 LE in capital size, both small and micro-enterprises theoretically fall within SEDO’s mandate. Empirically, however, the SFD has maintained the distinction between the SFD and CDP by designating to the latter micro-lending in the range of 1000-5000 LE, based on the old working definition adopted by the SFD. Micro-businesses with a capital size between 5000 LE and 50,000LE are eligible for SEDO funding.
mushroomed in response to the state’s presumed ‘retreat’. Firstly, how far have donors driven the state’s new approach to welfare through conditionality and policy learning by technocrats? This is arguably a particularly important question given that the SFD’s financing is donor based. Secondly, how far has the political logic of the state influenced this process and the overall evolution of the country’s welfare regime? More specifically to what extent can we interpret the promotion of SMEs under the umbrella of the SFD as part of a larger process of refashioning patron-client relations in the neoliberal era in order to reproduce the state’s social basis of power? To put it differently, how far do policy makers view the SFD’s role in the promotion of SMEs as extending beyond the neutralization of vocal opposition by politically worrisome groups to entail the establishment of a pro-reform coalition and the empowerment of marginalized groups? Thirdly, to what extent is the state’s policy driven by large business interests? This question’s relevance is rooted in the fact that the comparative politics debates on the welfare state in advanced industrialized countries draw attention to the prevailing class coalitions in explaining variations in policies geared towards protection from social risks. Further, in this literature the specific policy choice to promote the establishment of SMEs has been attributed to big business interests (along the lines of Linda Weiss’s interpretation of SME promotion policies in Italy as an attempt to de-poletariatize labour for instance). Fourthly, to what extent is the shift in Egypt’s welfare policies driven by a larger process of state-reformation whereby non-state actors have assumed state like functions, in this case mediating the citizens’ access to the market. This is, indeed, a major contention in the literature (for example Elyacahar’s *Markets of Dispossession* and Hibou’s *Privatizing the State*). Are actors within the state articulating a new mode of governing, whereby they seek to shore up regime legitimacy and reproduce state power through the informalization of welfare provision?

**1.0 Methodological Approach:**

In order to investigate the political economy of Egypt’s changing welfare regime, fieldwork over the last year and a half has relied on 104 semi-structured and open-ended interviews with key stakeholders. These included current and previous officials at the SFD

---

20 For further details, please refer to the proposal.
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 SME entrepreneurs, leaders of NGOs, members of the National Democratic Party’s economic and policies committees and 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 and government agencies in addition to the snowball method, in order to facilitate access to SME entrepreneurs and NGOs working with the fund. In order to enhance the validity of the research results and verify possible associations between variables, I crosschecked the gathered data. For this purpose I have taken the following measures: a) relied on interview guides, to compare the responses of individual interviewees, b) performed research on the background of participants c) included various categories of respondents in order to avoid an incomplete or one sided grasp of the topic, d) looked for independent supporting evidence of gathered data, e) cross-checked results with countervailing evidence to enhance research validity and f) accounted for evidence that contradicts the results of the study g) cross-checked results with findings from similar studies.

As a disciplined interpretive case study method, I have relied on systematically interrogating the evidence to crosscheck the validity of alternative theoretical explanations, in order to avoid the selective reconstruction of events in support of a favoured theoretical interpretation. Indeed, this approach was particularly useful for the purposes of my research since it effectively complemented existing statistical research by incorporating richer evidence and reasoning about process and context, thereby illuminating the causal mechanisms at work. Through process tracing, I explored the chain of events to determine how initial conditions were translated into outcomes or policy decisions. Further, one of the intended outcomes from this approach was to enable the researcher to identify individual actors and understand the relationships between actors in the decision-making process.

The interviews were complimented by field visits to areas with significant SME presence such as 15th of May industrial town on the outskirts of greater Cairo, the annual SFD exhibition of SME products and suppliers, the Productive Families Association Annual
Exhibition, Zohour El Dawahi industrial town in Portsaid governorate as well as the commercial center in Abu Khalaf village in the Ismailiya governorate. Furthermore, my attendance of several workshops on issues pertinent to SMEs, such as the workshops on “Small Businesses and Challenges of development in Egypt” and “the results of a survey on the business environment for MSMEs in Egypt” allowed me to interact and exchange views with development specialists from local and international organizations, NGO activists as well as SFD and government officials.

In terms of deciding how to carry out research activities in the field, once I had arrived and was settled I began by focusing on understanding the macro-context for my study. I explored the state’s approach to the SME sector as a whole, specifically its plans for the formalization of businesses, the various initiatives aimed at SME development by a range of government ministries, the debates over the special importance awarded to SMEs in Mubarak’s 2005 presidential campaign as well as public discourse on poverty alleviation in the course of the pre-elections campaigns and under the newly formed Ministry of Social Solidarity. Through background research and re-establishing contacts with academics and development specialists, I was able to gain a general understanding of the context for the SFD’s SME related initiatives. As events and information unfolded I was able to begin to determine specific actors beyond those previously identified for which interviews would be required. At the same time, I also began to develop a better understanding of the activities and corresponding issues at the NGO level. Although developing contacts with NGOs took longer than expected, I was able to eventually to establish relations with 15 NGOs and interview members of their boards of director, staff members as well as clients. Eventually, through these contacts, I have been able to meet with and interview SME entrepreneurs in 5 governorates in Metropolitan and Lower Egypt. Ten research sites were selected to allow for variations in the rates of poverty, unemployment and urbanization using Egypt’s 2005 Human Development Report indices. The sites were Cairo, Alexandria, city of Portsaid, Om Khalaf and Bahr El Baqar villages in Portsaid 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. My relationship with Mobadara, an NGO which have been involved in implementing SMEDUP a reputed SME project co-funded by the SFD and CIDA, came
towards the end of this phase of fieldwork and although I managed to interview the director and a couple of staff members, my planned visit to 3 research sites in Upper Egypt\textsuperscript{21} had to be postponed to the final phase of fieldwork June-August 2007.

3.0 Project Outputs:

My affiliation with the American University in Cairo proved to be a mixed decision. On the one hand, my affiliation allowed me access to one of the better the libraries in the country as well as interaction with academics. On the other hand, the affiliation could only be arranged at the level of academic departments (in my case department of political science). This has in turn meant that I’ve met few people working at the Social Research Center, where I had hoped to establish key contacts and eventually receive assistance in organizing the initially planned workshop. Accordingly, I alternatively planned to seek the assistance of NGOs active in the SME sector to organize a workshop. More specifically, due to the project’s initial focus on the Small Enterprise Development Organization (SEDO) and my interest in exploring NGO-state relations as a potential explanation for the research puzzle, I planned to organize the workshop on the NGOs experience in the field of SFD financed incubators. This decision was due to the fact that the great majority of SEDO’s intermediaries in its lending activities are banks while the role of NGOs is restricted to technical assistance, such as running incubators. Although I managed to visit 4 out of the 7 incubators operating under the auspices of the SFD and held interviews with managers and entrepreneurs at these incubators, I could not hold interviews with Egyptian Association for Incubating Small Businesses (EAISB), which is formally in charge of the majority of these incubators. The reluctance of EAISB members may have been related to the fact that the timing of my attempts to interview them coincided with the non-renewal of two of the association’s contracts with the SFD. Their non-cooperation and the hesitance of incubators managers, appointed by NGOs administering the incubators, in turn complicated my plans for the workshop. Eventually, in order to gain a better grip on the NGO-state angle, I expanded the research focus to include micro-lending activities under the Community Development Program, which works through NGOs, in addition to SEDO. This step,

\textsuperscript{21} These are Sohag, Qena and Asyut.
however, came towards the end of my fieldwork in mid-October 2006, which hindered my ability to organize the workshop on a different theme.

The outputs of the fieldwork so far include: 1) paper on “the Politics of Small Business Promotion: Preliminary Reflections from the Field” presented at the Mediterranean Social and Political Research Meeting organized by the European University Institutr EUI in Italy 2) invitation to present findings of the project in an upcoming workshop on: The Role of Financial and Non-Financial Services in Promoting MSMEs in Egypt, co-organized by the Center for Financial and Economic Studies, the Egyptian Banking Institute and the Egyptian Central Bank 3) paper on “Urban Governance in Egypt’s Neoliberal Era: An Analysis of the Social Fund for Development” to be presented at the upcoming American Political Science Association (APSA) 4) enhanced field research and analytical skills of the researcher 5) progress with doctoral dissertation preparation through gathering empirical data and the preparation of a revised thesis outline on its basis. Following assessment of the data collected in this phase of fieldwork, I intend to conduct further interviews and visit research sites in order to complement the information gathered and include the contributions of some additional participants.

4.0 Preliminary Research Findings:

The results of the research outlined below are preliminary and represent only an initial set of observations, which will develop more clearly and thematically as the dissertation progresses. This section begins by outlining general observations on the context for the study and then moves on to more specific findings categorized according to their relevance for the four hypotheses the research focuses on.

4.1 General Findings:

The SFD’s institutional set-up and the relative importance of its programs have gone through a series of transformations since its establishment in 1991 and start of operations in 1993. At inception, the SFD’s labour mobility and retraining program received the highest fund allocation and aimed to serve 60,000 out of an estimated 120,000 redundant labour in

---

public enterprises. However, by the end of phase I, the actual number of beneficiaries was 1960 or only 1.63% of estimated redundancy during ERSAP.23

The fund’s search for a role especially in light of the slow pace of privatization seems to have been the context for its shift in focus towards SME development. Indeed, a 1993 study highlighted the tensions in the SFD’s goals by pointing out the contradiction between the statements of distinguished members of its board of directors announcing that the fund is the solution to Egypt’s chronic unemployment problem, on the one hand, and the statements of its executive director, who formulated its goal in the more terms of relieving only that part of unemployment resulting from the economic reform process, on the other.24 By 1994, donors allocated the highest funding to Enterprise Development Program (EDP) amounting to L.E. 912.5 million, which represents 44.5% of total fund allocations.25 Further, the fund’s EDP came to be presented in official public discourse as a vehicle for employment generation among unemployed university graduates, poverty alleviation and private sector development. Its institutional evolution crystallized with the issuing of law 141/2004 which designated the mandate for SME development to the SFD. The following sections present preliminary findings on the driving dynamics behind the state’s adoption of SME promotion policies under the SFD, which is the focus of this research.

4.2 External dynamics:

According to this hypothesis, the promotion of SMEs under the umbrella of welfare is a function of the ideological hegemony of a development discourse championing state retreat, poverty alleviation through social networks and empowerment through participatory practices at the micro-local level. The focus here is on donor conditionality and technocratic policy learning. Enabling variables for this explanation are: the political elite’s choice to delegate power to technocratic forces, dependence on, and support from, external actors and institutions as well as the continued geo-strategic significance of Egypt from the perspective of donors.

Although elements of neoliberal ideology have been appropriated by the state and adopted at the official discourse level, overall external dynamics seem to be weakly influencing the SFD. The research findings indicate that donors seem to have had significant influence over the SFD in its early years as manifested by their interference with the project approval process as well as numerous procedures initially set by the IDA for replenishing amounts withdrawn by the SFD. Despite the fact that some donors continue to tailor design projects they fund, instead of financing already approved ones by the SFD, overall external influences have waned with the evolution of the fund and particularly its transformation into a permanent institution. Indeed, some claim that donor preferences were behind the SFD’s focus on SME lending through banks as opposed to NGOs since the majority of its financing is in the form low interest loans and donors had an interest in making sure that their money will be repaid. However, as detailed below there is little evidence to substantiate this view.

On *donor conditionality* fieldwork in fact shows that donors did exercise conditionality in some occasions but this did not lead to substantial or sustained influence over the SFD. For instance, due to poor evaluation of the SFD’s performance in its phase III (concluded in 1999), donors held up funds. However, a so called “bridging phase” for 2000-2002 was later established to allow for the dispensing of funds that the SFD had not used without major policy modifications. Despite echoing much of the same concerns and criticisms of the SFD in the first and second multi-donor review reports, such as the limited role of NGOs in SEDO’s operations and the SFD’s more generally, donors continued to finance its programs. Furthermore, areas where participants noted considerable donor influence, like the establishment of SEDO as an autonomous organization with a separate BOD, have been the subjects of policy reversals overtime. Indeed, my research indicates that donors’ ability to influence the SFD is limited by two sets of factors. The first is the lack of political will to exercise strong conditionality given the continued geo-strategic importance of Egypt. Thus, although a recently concluded agreement between the EU and the SFD entailed a component aimed at upgrading the staff of the SFD, asserting a greater margin of autonomy for the fund and its transformation into an apex SME organization performing advisory functions for decision-makers, my interviews indicate that neither the budget nor the time frame allocated for this purpose reflect genuine political will by the EU to push for reforming the SFD. The second factor is the wide range of donor disagreements over SFD
optimum policies (e.g. over the question of loan subsidies) within the SME/ SFD sub-donor groups under the DAG, which in turn gives the Egyptian side a greater margin of maneuver.

On technocratic policy-learning fieldwork so far shows that this has been a weak dynamic and it does not seem to have been sustained overtime. All respondents indicated that there were no lateral appointments from IFIs and non-merit based appointments are common because of the SFD’s higher wages. Further, attendance of workshops abroad...etc does not seem to be a systematic regular pattern. Although in the late nineties staff members were trained in the UK and USA in the area of SME development, this did not seem to have led to sustained influence over the SFD’s policies. In fact, the foreign trained staff’s proposals for establishing regional business support centers to assist with management and marketing, did not materialize since it did not get the full backing of SFD top officials. In fact, by 2003 only 3 out of the 14 foreign trained staff members remained at the SFD. Further, according to one estimate over 50% of SFD hiring is political and non-merit based especially at higher ranked positions, which tend to be occupied by retired army generals and other regime loyals.

As a matter of fact, attempts to transfer policy ideas in the area of SME development, such as SMEPOL are perhaps instructive of some of the challenges of technocratic policy-learning at the SFD level as well. A recent evaluation report of SMEPOL by the Overseas Development Institute (ODI) indicated that the project’s overall impact on policymaking was limited by 1) the fact that the initiative was narrowly embedded, in this case in the Minister of Finance Office, which seems to have hindered the sustainability of its influence especially at the lower levels of the bureaucracy 2) intra-state struggles and the tendency for SME issues to cross various ministry mandates.

On the issue of delegating power to technocratic forces—there are signs that technocratic forces are gaining a higher profile as members of the reputed NDP Policies committee under Gamal Mubarak’s tutelage and as current members of cabinet, which is untraditionally comprised of businessmen as well as foreign trained professionals. Nonetheless, it is unclear if they are gaining more power within the ruling regime. Indeed, President Mubarak is the head of the executive branch and key policymaking decisions are monopolized by the office of the president rather than the PM and cabinet members. Further, there is considerable resistance to the neoliberal reform agenda within the ranks of the NDP,
even within the policies committee and not just the bureaucracy. At the SFD level, technocratic forces are not dominant as explained above and the institution lacks autonomy from the state since the chairman of the SFD’s board of directors is the PM and the majority of board members are gov’t ministers.

4.3 Class Actors:

The comparative politics debates on the welfare state in advanced industrialized states draw attention to the prevailing class coalitions in explaining variations in policies geared towards protection from social risks. The ongoing shifts in Egypt’s welfare regime is, according to this approach, rooted in the weakening of organized labor and the decline in their relative importance as a part of the state’s social basis of power in recent years. Further, in this literature the specific policy choice to promote the establishment of SMEs would be attributed to big business interests (along the lines of Linda Weiss’s interpretation of SME promotion policies in Italy as an attempt to de-poletariatize labour).

While prominent businessmen have been members of the SFD’s BOD since its founding, research findings on the role of big business interests in the SFD’s adoption of small business promotion policies are, however, mixed. Indeed, big businessmen may have benefited from SFD operations by providing them with rent-seeking opportunities. Franchise agreements with the SFD whereby the latter pays a big business to provide its label and essential training for newly established businesses sponsored by the fund could, indeed, be a case at point. In one instance, Goldi, a famous television manufacturer rented subsidized space in the Mansoura incubator under a franchise agreement with the SFD, whereby technicians were trained in repairing its products. The research findings, however, indicate that there were a few franchise initiatives with big businesses and that the program overall lacked momentum due to the poor financing of the SFD’s technical support department. As for the involvement of businessmen association, as NGO implementing partners in SFD initiatives, it allows them access to grants in the amount of 2% of the contract value. However, my interviews indicate that the associations do not perceive the 2% as a reasonable profit margin to cover the operating expenses entailed in SME lending or incubator management. Aside from the relative importance of SFD created rents for big business,

---

26 I am aware of four franchise agreements, which were not officially implemented during my fieldwork. These are with Fuji, Radioshack, Moëmen the fast food chain as well as an agreement with a public sector manufacturer of electric appliances.
which will be further investigated by the researcher, the overall ability of big business to initiate policy changes in Egypt has been called into question by analysts (Kienle 2001; Sfakianakis 2004; Waterbury 1993). In addition, the motives for its involvement in SME promotion are unclear since there is also little evidence of labor radicalization in recent years, which may be seen as a motive for big business interest in the de-politariatization of labour through the spread of small enterprise ownership.

Indeed, research participants downplayed the role of big businessmen in the drafting of law 141/2004 and their direct benefit from access to subsidized credit based on the loose definition of the small business category in the legislation. Although big businessmen have been active in the area of SME development their role seems to be limited and in many instances could be characterized as charity oriented. For example, the recent attempt by the Sawares Foundation to establish a specialized bank for SME lending was met by strong resistance from the Egyptian Central Bank and the state authorities. While some business associations have been involved in SFD operations, their performance reflects a lack of genuine interest in SME development initiatives. For instance, according to the manager of the Tala incubator, the Menofeya Investors Association’s BOD has not actively kept up with its operations which adversely affected the incubator’s performance in recent years. Big businessmen associated with NGOs linked to the SFD as well as those reputed for their SME development initiatives but not necessarily working with the SFD, such as the USAID financed Alexandria Business Association (ABA), tend to not perceive their role as extending beyond charity. In fact, my interviews indicate that big businessmen don’t perceive SMEs as the core of Egypt’s private sector or its engine of growth but rather as a mechanism for poverty alleviation. Thus, for instance, they did not express any interest in the establishment of production linkages with SMEs, which they predominantly view as unreliable and inefficient potential suppliers of inputs to their businesses.

4.4 Neo-patrimonialism:

The SFD’s promotion of small businesses could be understood as part of wider neo-patrimonial strategies by political elites seeking to re-assert state power combined with societal interests. The economy of small producers is, indeed, considered as fertile ground for the exercise and success of clientelistic practices. In this view, the state elite have a stake in promoting informal businesses “as an attempt to reconfigure the state’s hegemonic project
and offset political instability” resulting from the official abandonment of Import Substitution Industrialization (ISI), deepening levels of political exclusion and increasing reliance on coercion.

The tendency for the SFD to help maintain support among the urban middle classes, or the regime’s main constituency, seems to be an intended or designed feature of the fund’s programs. The explicitly announced target for the SEDO loans are university graduates and the Productive Families Associations (PFAs), which until recently monopolized micro-lending under the SFD’s Community Development Program, requires the signature of civil servants as a form of collateral on loans (the target pool of recipients in other words are thus either the civil servants themselves or their close family). The director of the PFA program, in fact, indicated that their target recipients are no longer the destitute but rather “fresh graduates” and “limited income groups”, a category she exclusively identified with civil servants and government employees. While the SFD officially includes poverty alleviation as one of its objectives, interestingly, the officially proclaimed and de facto target groups of its programs are the urban middle classes, thereby rendering it by design a more exclusive effort.

Overall, fieldwork suggests that there are signs that neopatrimonial dynamics may be at work in the distribution of loans. Indeed, the SFD’s relationship to the ruling NDP seems to have been strengthened over the last few years. According to one source, this process has started in 2003 with the change in the fund’s management and was manifested by the new role assumed by the NDP’s youth committees in SME lending. Further, 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 ” (Al Ahram 15th of June, 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. This development could well mean that NDP supporters have easier access to SFD credit since the decision over loan applications will be taken at the party level. Nonetheless, evidence from fieldwork indicates that the politicized distribution of SFD loans is unfolding within a very fragmented political context. In other words, it seems that the state lacks coherence and there are multiple
clientalistic networks at work and in competition with one another. Therefore different sets of elites may pursue the use of SFD money to further its own interests rather than the regime as a whole systematically seeking to cement people’s loyalty through SME loans. This is especially the case given the facts that, Egypt still does not function as an electoral democracy and the NDP is weakly institutionalized. Indeed, Egypt uses the individual first past the post system and most parliamentary seats were won by independents in the last elections, who later rejoined the ranks of the NDP to form a majority. This has meant that unlike Mexico for instance, the SFD’s programs are not systematically targeting particular groups for regime electoral needs.

Aside from the direct link to the NDP, the political logic of the regime has affected the SFD programs in significant ways. These include when a heavy weight candidate from the ruling party promises x number of loans for SMEs to the constituency he is running in, he may have the local SFD official attend the rallies. In other words, people may have voted for someone due to the promise of SFD loans. This dynamic needs to be kept in perspective, however, because in more than one significant case this did not seem to have been a successful strategy. In fact, the manager of the SFD, Mr Hisham Seif El Nasr, himself ran in the 2005 parliamentary elections as an NDP candidate and lost. Furthermore, one of the research participants, a female NGO leader with three decades experience in community development, including heading one the biggest SFD financed SME lending programs, failed to get the NDP’s official nomination and eventually lost as an independent candidate. Her influential positions in the community as the head of the social solidarity unit and the leader of the local NGO in charge of administering the SFD’s SME loans did not garner her enough votes compared to what she considered organized efforts of the Muslim Brother candidate in her area. Indeed, the 2005 election results in Egypt point to two rather contradictory dynamics that seem to influence voters behavior and urge a rethinking of how neopatrimonialism unfolds in post-colonial contexts like Egypt’s. Firstly, the impressive performance of Muslim Brothers candidates reflects the role of ideological factors in influencing voters’ choices. Although here too voters’ loyalty may have been cemented through gifts and favours from a patron, this relationship tends to be perceived by clients in non-materialistic terms. Hence, in the case of the Muslim Brothers candidates voters did not seem to directly link their sympathy with the Brotherhood to the provision of services.
Secondly, another very prominent pattern in the elections was the tendency of “service” candidates—i.e. those with an established track record of providing services to their constituencies—from both the NDP and the opposition parties to lose their seats to a new category of candidates who distributed cash in return for votes.

4.5 Reforming the State- the rising role of NGOs:

Egypt’s promotion of small businesses could be understood as a manifestation of an ongoing redefinition of the state as an actor and its relationship to social forces. Actors within the state are articulating a new mode of governing; they have delegated responsibility to the semi-state SFD and NGOs in an effort to create “an economic space” for negotiating social relations outside the realm of the state and the formal economy. The state’s adoption of SME promotion policies could indeed be interpreted as indicative of the state’s ongoing metamorphosis or the privatization of its regulatory powers and not necessarily its reduced interventionism or retreat. The underlying assumption of this hypothesis is that there is a critical distinction between state power, on the one hand, and the state’s capacity to exercise that power in the form of a direct regulatory authority, on the other. For instance, Hibou presents her analysis of Tunisia’s National Solidarity Fund or the so called 26.26, which refers to the fund’s postal account number, as an instance of privatization of state power meaning the discharge of some of the state’s responsibilities to private bodies. The fund is intended to “eradicate shaded spaces”, “supply basic needs of those sectors of the population that have been hitherto denied” and is presented in official discourse as a “new model of social policy that is to be carried out through the solidarity of all citizens.”

According to her, the NSF functions because it is part of networks of power in which individuals circulate rather than political control and strategies of repression directly exercised by the president and his entourage. This is especially the case since, the fund is financed by so called voluntary donations given under duress and on the expenditure side, there is no budget, no management organization or list of beneficiaries.

28 All firms have to give certain sum per month and per employee to the NSF in addition to large sums at certain times of the year including election periods in order to ensure the authorities good will, while civil servants have to give a day’s earnings every year and peasants have to give 1% of their resources.
In order for this interpretation to be valid in the SFD’s case there should be evidence of the state dynamically changing by delegating political functions to NGOs whereby the line between state and society is shifting.\textsuperscript{29} Although the origins of the so-called “micro-finance industry” dates back to the late eighties with the USAID’s controversial funding of business associations and NGOs for that purpose, the delegation of political functions to NGOs does not seem to account for the puzzle at hand. Indeed, the USAID funded NGOs have had very limited cooperation with the SFD, whose establishment seems to have at once contributed to the legitimacy of their activities while also triggering a competitive dynamic between the state and these NGOs. Indeed the state responded to the establishment of a network of USAID funded micro-finance institutions in the region (SANABEL) by setting up an Arab network of Micro-finance institutions to compete with the former. Furthermore, the SFD has attempted to co-opt the initiative by these NGOs to set up a national level network of MFIs by insisting to have one of its officials serve as the chair of its board of directors.

In fact, the experience of Egypt’s SFD stands out compared to other social funds in terms of its reliance on governmental implementing partners in its programs rather than NGOs. To be more specific, the SFD’s Small Enterprise Development Organization (SEDO), which has been allocated the bulk of the fund’s budget, deals almost exclusively with public sector banks in extending credit lines for SME promotion and has embarked on direct lending in 2006. The other lending program under the SFD is the Micro-finance Unit under the Community Development Program and it has operated until 2004 either through government structures at the governorate level or the Productive Families Association, a state controlled national NGO. In the few cases of NGOs operating with the SFD, preliminary findings indicate that they tend to be artificial top down creations. These include, the Egyptian Small Business Incubators Association, which was co-established by the SFD’s ex-managing director, and the Future Generation NGO, which is closely associated with Gamal Mubarak and the NDP.

Indeed, law 181/2002 regulating NGO activities seems to place a number of heavy restrictions on these entities including their ability to raise international funding for their

\textsuperscript{29} This is based on the conceptualization of the state as a set of processes leading to isolation, identification, legibility and spatialization effects, rather than a fixed apparatus.
operation, appointment of board members, monitoring of finances, banning involvement in micro-saving and micro-insurance...etc. While mounting pressures from international donors has won them some latitude to select and contact local NGOs directly, the Ministry of Social Solidarity (MOSSA) still has to approve the receipt by any NGO of a foreign grant and also retains absolute power to check on these NGOs closely by monitoring work progress and scrutinizing documents. In recent years, MOSS seems to have struck a bargain with some donor agencies granting them a greater margin of autonomy in selecting NGO that receive their aid and imposing fewer restrictions on the operations of their recipients in return for the ministry receiving part of the financial assistance. Nonetheless, concerns about the long-term sustainability of the USAID funded NGOs if the US ends its aid programs in Egypt seem to have been behind the interest of these NGOs in getting a favourable SME law issued, which was not accomplished with law 141/2004. Indeed, law 141 seems to have exacerbated the problems of these NGOs because the SFD was given the mandate to supervise development efforts in the SME field, which was broadly interpreted by some within the SFD as a mandate to control and regulate these NGOs rather than “coordinate” their activities.

---