

Minor Field Study:

Islands of Merit

Explaining Partial “Meritocratization” in the Egyptian
Bureaucracy

Stefan Söderberg
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Abstract

Distinctive new features of the Egyptian bureaucracy have followed the process of economic liberalization and privatization that began in 1991. The Egyptian bureaucracy is excessively large and suffers from inefficiencies and low capacity, but dealing with prioritized policy areas, such as privatization, experts have been recruited to so called “Technical Offices” that are closely tied to the cabinet ministers. This study is twofold. First, it asks if the “Technical Office for Privatization” qualifies as a merit-based bureaucracy. When it is determined that indeed it does, it is contrasted to the regular bureaucracy and a process of meritocratization is identified. Second, from two different rational choice models four theoretical hypotheses viewing meritocratization as a process of reduced patronage-based recruitment are derived. These are tested in the case of the Egyptian privatization, resulting in the conclusion that meritocratization represented by the Technical Offices can be explained by a change in the value of bureaucracy as a channel of patronage, a change in prioritized political constituencies to the new private sector, and changing potential benefits of providing public goods to attract domestic and international investments. These changes have in turn lead to a shift in the respective patronage and merit equilibria.

Key words: Meritocratization, Egyptian bureaucracy, Technical Office, Patronage, Privatization.

Words: 10014

List of abbreviations

ERSAP – Economic Reform and Structural Adjustment Program
FDI – Foreign Direct Investment
GAFI – General Authority for Investment
GDP – Gross Domestic Product
IFI – International Financial Institution
IMF – International Monetary Fund
NDP – National Democratic Party
OUDA – Operational Unit for Development Assistance
SOE – State Owned Enterprise
UNDP – United Nations Development Program
USAID – United States Agency for International Development
WB – World Bank
WTO – World Trade Organization

A note on transliteration from Arabic

There is no universal system of transcribing Arabic names and words using the Roman alphabet. In this study names of persons are transcribed the way they occur in the second hand sources, how the persons themselves transcribe their names, or according to established spelling. Accordingly the same name is sometimes transcribed differently. Famous president Gamal Abd Al-Nasr is usually internationally referred to as "Nasser", whereas World Bank specialist Sahar Nasr spells her name "Nasr". I have chosen to keep these differences. Furthermore the definitive article in Arabic is transcribed "el" or "al", and is very common in names, and according to how the person spells his or her name one of these are used. Additionally some names are written with the definitive article and the following word together, such as Mohieldin, whereas Bahaa El-Din writes it separately. Unfortunately, these differences find their way into the references as well, and names starting with the definitive article are sorted under "E" for "el" or "A" for "al" or with the first letter of the following word, e.g. "N" for Nasr, all depending on how specific names are written. Of course, within this study the same person is referred to with a consistent spelling.

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1 Introduction

The Egyptian public sector is infamous for its inefficiency and size, employing some 6 million out of a population of 70 million. After a military coup in 1952, the Egyptian government developed socialist ambitions and features, and the civil service came to be viewed not only as an entity delivering public services, but also as a welfare system in itself, guaranteeing employment for large groups of university graduates. Cost control, effectiveness and efficiency have suffered. The bureaucracy has been an important pillar of a commonly referred to "social contract", partly defined in laws and partly implicitly understood: the government bore responsibility for providing basic goods and employment to their citizens in return for political acquiescence.

This historical contract, however, has in reality withered away under successive governments since the late 1960s, due to its heavy load on the state budget. Reforms of the public sector have been attempted, but with shifting commitment and to no great success.

The 1990s was a politically turbulent period as the Egyptian government budged under international pressure from the USA, the IMF and the World Bank and embarked on economic liberalization. Large structural reforms, although only partially implemented, have nevertheless transformed the Egyptian economy from heavy-handed state interventions towards a *laissez faire* or new liberal system. These changes were dramatic for people and politicians alike. However, the complexities and hardship for the large portions of the populations is not the topic of this study.

As privatization reform has been implemented with increasing intensity, the bureaucracy implementing the reforms has undergone changes as well. One important feature is that expert groups, so called "Technical Offices", have been established within Egyptian ministries and agencies. The Technical Offices could not be more different from the regular bureaucracy, and they seem to propose that the government has taken a new view of the bureaucracy in Egypt and its *raison d'être*.

This study will seek to determine whether the "Technical Offices for Privatization" can be seen as meritocratic in contrast to the regular Egyptian bureaucracy, and will attempt to explain why, if so, this has occurred.

Meritocratization is interesting in its own right. But furthermore it suggests that regimes make a choice between a patronage-based and a merit-based bureaucracy. Choosing merit thereby means choosing to give up patronage. The larger question that looms over this study is the question of why authoritarian regimes give up any potential channel to patronage and decide not to "enjoy the spoils of office".

1.1 Aim and query

It is the aim of this study to determine if the "Technical Office for Privatization" can be considered a sign of meritocratization, albeit limited, of the Egyptian bureaucracy. If so, how can this be explained? The Egyptian case can potentially provide a basis for testing existing theories of meritocratization and patronage.

1.1.1 Research questions

- How does the "Technical Office for Privatization" differ from the regular Egyptian bureaucracy?
- Do these differences signify a meritocratization?
- If so, how can the meritocratization be explained?

The significance of meritocratization is great also outside the academia. Leading development agencies consider an efficient and impartial bureaucracy a prerequisite for economic development, but little research has been made on meritocratization in non-democratic countries, which often have problems of economic development. There has been a steady increase in interest from authoritarian governments, not least in the Arab World, in efficient public services and reduction of corruption. This interest cannot be said to correlate with the same interest for political liberalization. Why is it that an authoritarian government voluntarily gives up having full discretionary control over its bureaucracy, especially if it does not have to?

1.1.2 Demarcations

The "Technical Office for Privatization" in Egypt is the object of this study. Features of that office are, according to other research on technical offices in

general, shared with other technical offices in Egypt and internationally. However, conclusions about its potential meritocratic characteristics cannot automatically be generalized to a wider population of cases.

The Egyptian continuing experience with economic liberalization is widely argued to have had dramatic social consequences such as high unemployment, severe inequalities and a deepening of poverty (Farah 2009:48). This study does not deal with these socio-economic issues nor with government repression or breaches of human rights, although it is sometimes argued that economic liberalization has correlated with poverty and less political freedoms and human rights (Brownlee 2002, Makram-Ebeid 2001, Mitchell 1999).

1.2 Research design

1.2.1 A qualitative case study

This study is a qualitative case study. As such it allows for paying attention to details and complex societal dynamics when analyzing changes over time (Mahoney 2007:132, Bennett & Elman 2006:463). As a research design it holds weak grounds for further generalization (Esaiasson et al 2004:119-120). This does not compromise the aim of the study since it is focused on explaining the case at hand.

Meritocratization in authoritarian settings is a relatively underdeveloped research field, as pointed out by Lapuente & Nistotskaya (2009:434), and as such it may benefit from a study allowing for complexities. After taking stock of existing theories of meritocratization, two rational choice theories form the point of departure for this study, not unlike approaches common in comparative politics, described as “employing rational actor assumptions in a relatively nonmathematical way” (Mahoney 2007:123).

A qualitative case study allows for a relative openness when approaching the empirical material (Mahoney 2007), an important part of which originates from in-depth interviews, which have benefited from the relative freedom of keeping limitations on material to be decided late in the process. The openness allowed for semi-structured interviews, in which unexpected information was able to surface.

1.2.2 Case selection

Critique of single case or small-n studies concern potential bias in case selection, but since this study makes no claims outside of the particular case, there is not necessarily a wider population of cases that may be misrepresented (Bennett & Elman 2006:461). Further critique questions case selection on the basis of the independent variable when testing theory (Esaiasson et al 2004:124-125), in this case meritocratization, but mainly this critique questions the validity of comparison between cases. Quantitative researchers often respond to this critique by claiming that research that does not rely on intuitive regression is not susceptible to selection bias in the same way (Bennett & Elman 2006:461). However, a brief discussion about the characteristics of the Egyptian case, and possible wider contributions of this study is still in place.

Most research on meritocratization has focused on democratic settings, leaving out more than half of the world's countries¹. As Lapuente and Nistotskaya (2009) point out, there are examples of meritocratization in authoritarian countries, and they offer a model describing meritocratization under these circumstances, by introducing as an independent variable the rulers' time horizons, i.e. whether they are short- or farsighted. Their study is a quantitative study and their independent variable is difficult to test in a case study, especially since it is operationalized with the length of incumbency² – when does a ruler become far-sighted? Furthermore this study investigates intra-case variation, the difference between the regular bureaucracy and the Technical Office. Both operate under the same regime, but show different characteristics.

The Egyptian bureaucracy as a whole cannot be characterized as meritocratic (see chapter 3), and it shows similarities with a wide range of developing non-democratic countries in that it is struggling with efficient public service provisions on one hand, and a weak or irregular economic growth on the other. Authoritarian countries also interact with different constituencies to some degree, which is closely tied to patronage and in extensions meritocratization (see chapter 2). Potential explanations of reduced patronage and meritocratization arising from this study, may on the basis of Egypt's similarities with many developing countries in these aspects merit further tests in different cases.

¹ 89 of 193 countries in total (46%) are considered "free" by Freedom House in 2009.

² Following e.g. Clague et al. (1996) in an established method within political economy.

Can the “Technical Office for Privatization” as a potential “meritocratic island” be analyzed using the same framework as for analysis of meritocratization of a whole bureaucracy?

In this case, as will be described in more detail in the chapter 3, a fundamental dichotomy between patronage and merit forms the theoretical basis of this study. The underlying question is why does a regime give up a channel of patronage? For this underlying question, even if the Technical Office does not signify a complete change in the Egyptian bureaucracy, if found to be meritocratic it is in itself still a case of merit replacing patronage.

Egypt’s changes to its bureaucracy can be seen as a case of institutional change in an authoritarian country, which is a developing research field. For example scholarly work focus on institutions as means of authoritarian power (Gandhi & Przeworski 2007, Schedler 2002), as well as the effect institutional design has on economic and political decision-making in authoritarian countries (Wright 2008), and institutional change in order to overcome parliamentary reform resistance (Malesky 2009). The Arab World, argues Heydemann, is going through an authoritarian upgrade in which a wider “repertoire” of tools to maintain in power is used (Heydemann 2007). In comparison to Lapuente (2007), who studies bureaucracies in this context, this study differs in its focus on only a part of a bureaucracy. In this approach it may still contribute to the understanding on larger analytical units, since it is argued that similar societal and economic factors are at play.

1.3 Material

The empirical part of the study is based on material collected through two methods. First, academic and media material about Egyptian economy and bureaucracy have been studied. Second, in-depth interviews have been carried out with strategically selected informants close to the economic and political events either as part of the government or the bureaucracy or as observers from the private sector or academia.

1.3.1 Secondary material

There is a reasonable variety of books and articles covering Egypt’s political and economic development during the 1990 and 2000s, representing a variety of opinions and biases. The Egyptian economy has been covered in some detail in the secondary material consulted for this study in sources that are

fairly outspoken about technical economic issues³. Economic data has been attained from the World Bank and the Egyptian Ministry of Investment. The Egyptian printed media is somewhat free in expressing critique of the regime, and the biases of newspapers mostly follow predictable lines of opposition- or government loyal newspapers, but it is rare that they touch on administrative issues to any depth. Corruption and patronage is often mentioned and referred to as a major problem on all levels in both the government and the private sector.

Unfortunately some project-related material from the international organizations is not available for the public. This has been compensated with interviews with its representatives.

The secondary material has been consulted with a critical mind, and as much as possible I have contrasted sources independent from each other against one and other as well as brought key arguments up for comments in interviews. On two occasions I have contacted authors and asked for clarifications.

1.3.2 Elite interviews

I conducted so-called "elite interviews" for two reasons: to fill identified gaps in the secondary material, and to corroborate or crosscheck secondary sources according to a "triangulation" principle (Tansey 2007:766).

I held twelve in-depth interviews during a two-months long field study in Cairo⁴. The first round of *informants* (see distinction from "respondents" in Esaiasson et al 2004:253) were selected strategically and are either acting or former representatives of the government, the regular bureaucracy, the Technical Office, or the international development cooperation community, or they are academic experts or private businesspersons. I asked the initial informants to refer to further sources in a chain-referral method. At the end of the process, informants mentioned the same episodes and referred to the same persons or functions, which signaled that I had reached a large enough number (Tansey 2007:770). Of course availability was also a factor, but almost all of the approached informants had the possibility to meet me.

The interviews have been made according to a semi-structured or dialogue approach, and have been guided by writings on "elite interviewing". I asked the informants questions both in line with their expertise and of a

³ For example, two widely quoted and highly respected economic research centers – Egyptian Center for Economic Studies, ECES, and Economic Research Forum, ERF – involve top Egyptian economists in a wide variety of subjects.

⁴ This field work was possible with a grant through the "Minor Field Study" program financed by the Swedish International Development Cooperation Agency, Sida, and administered by the university's Department of Political Science.

more general nature. Some of the questions were open-ended to allow the respondent to convey what was most important in his/her view (Tansey 2007:767).

While obtaining primary material I kept in mind that "it is not the obligation of a subject to be objective and tell us the truth" (Berry 2002:680). In particular I was watchful of tendencies to exaggerate individual roles and for, what is according to my experience common in the Arab World, exaggerated reliance on conspiracy theories.

All informants were used to international settings, and I have no reason to believe that conducting the interviews in English rather than Arabic made any difference in substance.

1.4 Outline

In chapter two "Theory" four theoretical hypotheses are derived from existing literature. Chapter three determines the characteristics of the Technical Office compared to "meritocratic criteria" and the regular bureaucracy. The fourth chapter describes the privatization in Egypt. Chapter five evaluates the hypotheses and chapter six offers theoretical and case conclusions.

2 Theory

The key concept of this study is *Meritocratization*. The topic is approached according to *new institutionalism*, viewing actors as reacting rationally to different institutional features and changes in the same, and at the same time attempting to shape institutions according to preferences. (Hay 2002:10-11).

Also authoritarian governments must muster political support in order to remain in office. They do so by providing incentives – spoils – to key constituencies (Gandhi & Przeworski 2007:1281). How spoils are distributed and to whom is one of two aspects of patronage that are in focus in this study.

Autocrats further need to solicit economic cooperation to build its economy, unless they can extract rents from natural resources. To do so, they must provide incentives for people to reveal their information, to work and to save. When economic activity or cooperation increases, so do the resources available to the regime for spoils (Gandhi & Przeworski 2007:1281). This is the second aspect of patronage.

Meritocratization is based on a theoretical dichotomy between a merit-based bureaucracy and a patronage-based bureaucracy. Douglass North argued that throughout the history there has been a tension between "the ownership structure which maximized the rents to the ruler and a system that reduced transaction costs and encouraged growth" (North 1981). Lapuente & Nistotskaya in turn argues that this dichotomy is represented in meritocratization (2009:436).

In this chapter, following a section that defines the concept of meritocratization, a brief theoretical orientation of meritocratization is made, followed by an account of two models of meritocratization (Lapuente & Nistotskaya, 2009) and clientelism (Magaloni, Diaz-Cayeros & Estévez, 2007) respectively. Combined, they cover the two sides of patronage as described above. Finally, an attempt is made to combine the two models in an approach that takes into consideration that an incumbent has an interest in both extending patronage for political support, and in increasing government revenues to increase the resources available for patronage.

The two models both describe formal equilibria. In this case study intra-case variation and change will be viewed as a change in variables in the model leading to a shift in equilibrium.

2.1 What is meritocratization?

2.1.1 Patronage-based bureaucracy

Spoils are distributed through *patronage* or *clientelism*, which refers to a relation in which patrons and clients form networks that are particularistic and through which resources are exchanged in a way that is not totally formal or legal. The patron and the client are on different levels in the society or a system, but the relationship is thought of as voluntary and long-term (Eisenstadt & Roniger 1980:50, Roniger 2004:353-4).

The terms “clientelism” and “patronage” are sometimes used interchangeably (Kitschelt & Wilkinson 2007:7), or sometimes “patronage” refers to a specific kind or “clientelism” when state resources such as positions or services are rewarded to political supporters, but which does not include *tribute*, traditional gift exchanges, or *prebends*, political supporters are given control over a specific sector or area (van de Walle 2007:51). In this study the term “patronage” will be used according to a limited definition, not considering tribute or prebends.

Often patronage is described as “vote-buying” in elections; it represents a transaction – the exchange of a citizen’s or a group’s vote in return for payments or access to employment, goods and services. In this transaction the politician’s delivery of a good is contingent on the vote of specific members or groups of the whole electorate (Kitschelt & Wilkinson 2007:2ff).

In an authoritarian system, where votes are not the main political resource, political constituencies are made up of other actors than groups of voters, such as the military, different groups in the private sector, labor unions. Still the key task for the patron is to provide incentives to the key constituencies to maintain their political support (Svolik 2009, Gandhi & Przeworski 2006).

Subsequently, in a patronage-based recruitment to the bureaucracy in an authoritarian system, positions are distributed as spoils and appointments are made to garner political support from key constituencies.

2.1.2 Merit-based bureaucracy and meritocratization

With a merit-based bureaucracy, rulers renounce the possibility of patronage in bureaucratic recruitment. Instead bureaucrats are employed on the basis of their skills, on merit, rather than on the basis of being part of an informal patronage network.

In many developed countries, there is a particular time in history to which we can trace formal meritocratization, e.g. the Pendleton Civil Service Act of 1883 in the USA. But a civil service act in itself does not directly prevent patronage unless it is implemented (see for example Gajduschek 2007).

To capture a fuller concept of merit, other than in a formal way, other criteria can be used. Evans and Rauch have developed a "Weberianess scale" (1999, 2000), which is operationalized by (1) meritocratic recruitment, (2) career opportunities (3) competitive compensation (Evans & Rauch 1999). To also include "career opportunities" and "competitive compensation" goes beyond strictly meritocratic recruitment, but it is reasonable to align with the criteria since it attempts to capture a fuller capacity increase.

Meritocratization accordingly refers to a change in which the government gives up a bureaucratic recruitment system that is based on patronage in favor of a merit-based recruitment system.

2.2 Previous theories explaining meritocratization

2.2.1 Political considerations – fragmentation in the polity

Max Weber has been followed in arguing that a merit-based bureaucracy is superior in efficient delivering public services (e.g. Evans & Rauch 1999). However, New Political Economy (NPE) scholars argue, on the basis of rational choice theory, that the characteristics of a bureaucracy are the result of politics, which is far from primarily concerned with efficiency in providing public services.

The NPE literature has focused on democratic settings, in which a change in government is credible. In these settings, the more fragmented the polity is the more likely it is that the bureaucracy is meritocratized. The polity can be fragmented either horizontally, through separation of powers (Frant 1993, Ruhil 2003, Johnson & Libecap 1994), or over time (Williamson 1999). In both instances politicians will implement meritocratization in order to reduce their rivals' possibilities of future discretionary power.

These models have however difficulties explaining why a strong authoritarian government (low or no fragmentation of the polity) would meritocratize the bureaucracy.

2.2.2 Political considerations – future discount rate

To include authoritarian countries, Lapuente & Nistotskaya propose a different model. They argue that rulers opt for meritocratization if they expect to stay in office for a long time. If they do not, they instead opt to use the bureaucracy as a patronage system (2009).

The model is based on the assumption that all regimes, even dictatorships, are dependent on interactions with economic actors outside of the government. Economic agents produce a high taxable base if they trust the government not to engage in patronage. If they do not trust the government, they will produce a lower taxable base (Lapuente & Nistotskaya 2009:435-436).

If a government expects to stay in power long term it reckons to have time to enjoy future increased economic activity from economic agents. Seeing a low risk in the future, future benefits will be discounted with a low *discount rate*, i.e. if it expects staying in power for long future benefits are more valuable than if it expects to stay in power for a short time. If it expects a short incumbency it engages in patronage instead. In Lapuente & Nistotskaya's words "to the short-term victors belong the spoils of office" (2009).

2.2.3 Alternative focus

In a case study it is difficult to trace any change in a ruler's discount rate over time, i.e. to determine when a government becomes far-sighted.

Additionally, as suggested by Roger Owen, longevity may enable regimes to "patrimonialize the economy and cultivate crony capitalism" even further (Owen 2000: 35-38, 243-48).

In this study, the formal model provided by Lapuente & Nistotskaya will be utilized, but rather than focusing on change in the far-sightedness of the government, the other side of the equation will be examined as follows.

When Lapuente & Nistotskaya focus on the discount rate (r), they hold constant the political value of patronage in the bureaucracy (A), the potential value of economic agents increased activities resulting from meritocratization (B), and the (low) value that economic agents produce when they do not trust the government (C). In their formal model, if the discount rate is lower than the function of the other variables meritocratization will be implemented:

$$r < (B-C) / (A-B)$$

(Lapuente & Nistotskaya 2009:437)

But what if we cannot access information about far- or short-sightedness of a regime and therefore hold the discount rate (r) constant? Instead we let one or several of the other variables change. In what way does A , B and C have to change to lead to meritocratization with a constant r ?

There are two ways:

- (1) The difference in $B-C$ increases
- (2) The difference in $A-B$ decreases

Accordingly, two additional hypotheses emerge. A regime will meritocratize the bureaucracy if:

H1: the difference between the economic value of what economic agents produce when they trust the government and when they do not trust the government increase. In other words, the potential economic benefits of economic agents' activity increase;

H2: the difference between the political value of sustaining patronage in the bureaucracy and not sustaining patronage in the bureaucracy decreases. In other words, the value of the bureaucracy as a channel of patronage decreases.

2.2.4 Political considerations – constituencies

Reduction of patronage is the focus of the second model as well. Magaloni, Diaz-Cayeros & Estévez focus on a democratic setting, but can be useful nonetheless since it considers the other aspect of patronage – the distribution of it (2007).

An incumbent has a basket of resources to transfer and a choice between private goods and public goods. Private goods, patronage, give secure but low yields in terms of political support. It involves costly transactions and a limited number of beneficiaries. Public goods on the other hand reach many beneficiaries and may give high yields, but are risky since it cannot be guaranteed that they are translated into political support. This could easily turn into a dilemma, but since budgets are not indivisible a risk-averse incumbent can combine both public and private goods in order to hedge for risk (Magaloni, Diaz-Cayeros & Estévez 2007:187-191).

In this combination the share of patronage decreases, according to the authors, if (1) difference in potential yields from public goods and private goods increases, (2) there is a need to reach new, larger and more

heterogeneous constituencies, and (3) less risk in public goods (Magaloni, Diaz-Cayeros & Estévez 2007:192ff). Risk in public goods is traced to political competition, which is difficult to determine in authoritarian states, and will not be included in this study.

Two additional hypotheses emerge. A regime will reduce the share of private goods, i.e. to meritocratize the bureaucracy if:

H3: the potential yields in political support from providing public goods relative to providing private goods increases;

H4: new constituencies that would be too costly to accommodate with private goods alone emerge.

2.3 Combining models

Lapuente & Nistotskaya focus on an incumbent's interaction with economic agents in order to increase the taxable base, i.e. revenues for the government. Magaloni, Diaz-Cayeros & Estévez focus on the distribution side and the incumbent's interactions with political constituencies.

Rather than focusing on one of these sides, this study takes both sides into account, and they are considered complementary. An incumbent is proposed to be interested in *both* increasing its taxable base and thereby increase resources for patronage, *and* distributing patronage to secure the constituencies' political support; both of these wishes have effects on the choice between patronage through the bureaucracy or meritocratization of the same.

The two models analyze patronage and meritocratization on two different analytical units. Lapuente & Nistotskaya focus on patronage or the lack thereof in the bureaucracy and Magaloni, Diaz-Cayeros & Estévez focus on patronage on an aggregate level. This study will focus on an even smaller analytical unit, the bureaucracy implementing privatization. It is assumed that patronage is employed similarly enough on these different levels to use the same theories.

3 Patronage and merit in the bureaucracy

3.1 The Egyptian bureaucracy

After the 1952 military coup the government inserted military officers into the bureaucracy to replace the pre-revolutionary elite. “Trustworthiness” was prioritized over “expertise” (Ayubi 1980:157ff), triggering a bureaucratic competition for power and resources (Ayubi 1980:380).

At the lower levels of the civil service, employment was associated with the social contract and grew exponentially. Starting from 1962 graduates from free university education were guaranteed government employment and tenure for life. The number of ministries doubled, and the number of employees quadrupled 1950-1970, not simply reflecting growth in welfare services (Handoussa & El-Oraby 2004:3), but also a welfare system in itself (Radwan 2010), disregarding efficiency (Palmer, Leila & Yassin 1988:98). Today 5,8 million people are employed in the government administration (Abdelhamid & El-Baradei 2009:12).

Successive governments have struggled to introduce administrative reforms, but rather than fundamental reform, ad-hoc patching and overlapping institutions have been the result (Ayubi 1980:205, 240ff, Handoussa & El-Oraby 2004:1, Leila, Palmer & Yassin 1988).

3.1.1 Key characteristics

Overstaffed and low capacity

Egypt has one of the highest levels of government employment among developing countries, estimated at 29-42 % of the total workforce in 1995 compared to 10-15 % in comparable countries (Handoussa & El-Oraby 2004:22, Radwan 2002:7).

Abundance of staff has led to a low efficiency (Radwan 2002:23), and since over half of the staff had a university education already in 1988, a lack

of formal education is not sufficient to explain this. Rather, mismatch in skills and functions and weak incentive structures are pointed to (Palmer, Leila & Yassin 1988:22, 41, 127).

Low compensation and low motivation

The Egyptian civil servants' wages are lower than in comparable countries (Abdelhamid & El-Baradei 2009:12), and has not risen enough to compensate for inflation (Handoussa & El-Oraby 2004:7). Official wages leave 95% of civil servants considered poor by World Bank standards (El-Naggar 2009:49). Also top managers' wages are restricted and cannot exceed 4500 Egyptian pounds, EGP, per month⁵ (Abdelhamid & El-Baradei 2009:6).

In a survey, 97-98% of civil servants respond that their government salary is not competitive nor cover their needs (Abdelhamid & El Baradei 2009:17), resulting in rent-seeking and second jobs (Fatah 2009).

Critics claim that the bureaucracy is more likely to delay and obstruct procedures than to expedite them (Rutherford 2008:207), and civil servants acknowledge that their poor compensation leads to poor performance and corruption (Abdelhamid & El-Baradei 2009:3). Fragmentation and rivalry between different administrative levels and units make them conservative to change (El-Baradei 2006:9, Youssef 1994:371).

3.1.2 Recruitment

The Ministry of Manpower and Vocational Training directs applicant university graduates to government agencies. Until recently new employees far exceeded available positions; the rest were allocated to local authorities to dispose at their discretion (Handoussa & El-Oraby 2004:4). The employment guarantee scheme considered employment concerns rather than matching skills (Ayubi 1980:512, Rutherford 2008:207), in a process described as "haphazard at best" (Palmer, Leila & Yassin 1988:38). Since 1987 the guarantee was watered down (Sullivan 1990:131), and given up during the 2000s. Holding a degree is no longer a guarantee for a civil service position. It is expected by the Minister of Administrative Reform that the bureaucracy will be reduced to a manageable size in 10-15 years (Khouri 2010).

Promotion is slow and based on degrees and seniority rather than performance, and senior civil servants are promoted extensively according to patronage (Ayubi 1980:512).

⁵ 4500 EGP is approximately equivalent of 800 USD in May 2010.

3.1.3 Patronage

Patronage-based recruitment (*wasta*) was early described as common both at low and high levels (Palmer, Leila & Yassin 1988:38) and has been confirmed to continue unabated (Beshai 2010, Ezz El-Arab 2010, Hassanein 2010b, Radwan 2010, Wurzel 2004).

Since the 1960s the number of positions in the top echelons of the civil service increased excessively; titles or work descriptions were often invented to suit certain individuals (Ayubi 1980:380). Politicians and top bureaucrats secure positions for clients (Harik 1997:59), and patronage cut across all levels (Marfleet 2009:25, Kienle 2000:164). Some 10% of civil servant respondents to a study confessed that they had received their positions via patronage (Palmer, Leila & Yassin 1988:26,41).

3.2 Parallel bureaucracy - Technical Offices

In the 1990s ministerial advisors were organized into parallel structures called "Technical Offices"⁶ and mandated high importance and influence to enhance the government effectiveness (Bahaa El-Din 2003 in Handoussa & El-Oraby 2004:12, El- Baradei 2006:16).

3.2.1 The Technical Office for Privatization

The "Technical Office for Privatization", later renamed "Technical Office for Asset Management" is such a parallel unit, comprised of highly educated, well-paid staff accountable to the minister responsible for privatization (Bahaa El-Din 2003 in Handoussa & El-Oraby 2004:12). It currently consists of approximately 150 employees including assistants, advanced secretaries, junior experts and senior policy making advisors (Hasouna 2010).

When Egypt agreed with the World Bank and the IMF in 1991 to a so-called "Economic Reform and Structural Adjustment Program", ERSAP, foreign aid increased substantially (see next chapter). International contacts and coordination with international financial institutions and donors increased, and so did administrative demands for:

- Fast and flexible actions;

⁶ Technical offices are not uncommon in the developing world. They are sometimes also referred to as project implementation units, parallel bureaucracies, "projectization" etc. (El-Baradei 2006:1).

- English language skills;
 - Computer skills;
 - Handling of data, databases, coordinating data;
 - Easily accessible information about investment opportunities for international companies – providing an "industrial map"
- (Arafa 2010, Ghoneim 2005:3).

In 1992, under the Ministry of Public Enterprise Sector, the "Technical Office for Privatization" was created and in 2004 transferred to the new Ministry of Investment and renamed "Technical Office for Asset Management" (Farah 2009:49-51, Hasouna 2010, Khouri 2007). The Technical Office's role is to serve the minister with expertise, data and information about international experiences, as well as to advice policy, including on privatization. The office is situated close to the minister, and represents a critical and influential group in policy making (Hasouna 2010, Ministry of Investment 2004).

The Technical Office is widely acknowledged to have been key to the privatization process (Arafa 2010, Hasouna 2010, Kamel 2010, Nasr 2010). Its functions include:

- Evaluating and planning for privatization of assets;
 - Supporting the chairmen of the public holding companies, pushing for privatization;
 - Legal support to the public holding companies;
 - Formulating practical policies on evaluations, employees, debt management in firms;
 - Functioning as leverage for the minister towards agencies
- (Hasouna 2010, Hassanein 2010a, Kamel 2010, Nasr 2010).

Technical advisors have been essential to increase capacity of the bureaucracy (Arafa 2010, Hasouna 2010), and are jokingly claimed "to do in one day what a regular bureaucrat does in six months" (Radwan 2010). According to investors, dealings with the government have improved significantly because of the Technical Office (Hasouna 2010).

3.2.2 Is the Technical Office "Weberian"?

Advancement – The staff is employed on short-term contracts, one to three years, but have a good chance to advance through renewal of their contracts, which gives strong incentives to perform well (Hasouna 2010, Nasr 2010, Radwan 2010).

Wages – In contrast to the regular bureaucracy, there are no upper restrictions on salaries (El-Baradei 2006:16). The compensation is competitive and includes performance-based incentives. The staff works with a high flexibility and commitment (Hasouna 2010, Kamel 2010, Nasr 2010).

Merit-based recruitment – The Technical Office staff are recruited in a procedure that circumvents the regular processes, referred to as "picking the cherries" (Hasouna 2010), and they are significantly higher educated than in the regular bureaucracy, often holding international degrees, and command English at a professional level.

As experts their skills match their functions, and many have international experiences or come from the private sector. Jobs are advertised in local and international media (Ghoneim, 2005:3).

A study of Technical Offices in Egypt, which does not include the "Technical Office of Asset Management", may nonetheless offer a general idea. Respondents emphasize qualifications and proven expertise in the recruitment, but 57 % also mention personal references or acquaintances as being important. About a third mention advertisement in national or international media such as *the Economist* (El-Baradei 2006:21).

Experts agree that corruption and patronage is widespread in Egypt, and that it cannot be concluded that the Technical Offices for Privatization is completely free from those practices. However, they also agree that the key difference between the Technical Office and the regular bureaucracy is that recruitment is based on qualifications first and foremost according to requirements that are widely advertised in a process that matches skills and functions (Arafa 2010, Kamel 2010, Nasr 2010, Radwan 2010). "High quality people are recruited primarily on the basis of their competence" (Kamel 2010); "competitive people are recruited on a competitive basis" (Hasouna 2010).

3.2.3 Financing and Sustainability

The Paris Declaration on Aid Effectiveness of 2005 identifies Technical Offices as potentially retarding domestic administrative development, and includes an agreement to reduce them (El-Baradei 2006:5). Originally meant as a temporary unit to assist the Egyptian economic transition – which USAID expected to take three years, but that has not yet been completed (see next section) – after 20 years the Technical Offices can be considered a long-lasting element of the Egyptian bureaucracy.

The USA Agency for International Development, USAID has financed the Technical Office for Privatization since the start in different ways, and since

2003 indirectly through a mechanism called "Operation Unit for Development Assistance", OUDA, which is a fund contributed to under the USAID's "Technical Assistance for Policy Reform", TAPR II, program. The new financing mechanism allows the Egyptian government direct control of the fund, and it has decided to maintain the Technical Office for Privatization (Kamel 2010).

3.3 Meritocratization?

Does the Technical Office signify a shift, albeit on a limited scale, from a patronage-based system to a merit-based system?

In terms of "advancement" and "wages", the Technical Office's characteristics align closely with the ideal type defined in the theory section.

One of the most significant differences between the regular bureaucracy and the Technical Office is in the latter's emphasis on merit and proven qualifications in its recruitment of staff. This emphasis, combined with the focus on matching skills with tasks, and the relatively open manner of advertising positions, build a strong case to argue that the Technical Office differs from the regular bureaucracy in that recruitment is focused on acquiring qualified and skilled staff, rather than dispersing patronage rewards. This difference, I argue, captures the idea of "meritocratic recruitment", and therefore the establishing of a Technical Office qualifies as a process of meritocratization.

4 The Egyptian privatization

4.1 Background

The post-revolutionary government after 1952 turned to a combination of socialism at home and Arab nationalism abroad, *Nasserism*, after the charismatic president Nasser. A domestic social contract emerged: the state was to provide employment and affordable basic goods, and the people were to acquiesce to the regime's rule (Chase 2006:210). The government radically increased its role and came to dominate economic activity (Gray 1998:93). This *statism* was challenged in consecutive economic crises, liquidity problems and budget deficits, and the government turned to international financial institutions for assistance. In exchange for substantial economic support, these institutions promoted economic liberalization. Egypt embarked on economic reforms, but only implementing them selectively and gradually.

Both the increased and the reversed statism that has taken place since the 1950s have dramatically redistributed resources and shifted the balance of economic power. The first phase included wide ranging nationalization and the second phase included a comparable privatization.

4.2 Post-revolution features

The state was put in the center of economic activity when the post-revolutionary regime seized most major industrial and financial assets – foreign and domestic – through nationalization. Independence through import substitution was the main economic goal, with a monopolization of foreign trade and central planning as important tools (Chase 2006:208, Galal & Al-Megharbel 2008). The industry was set on prioritizing “social returns” such as employment and cheap consumer products before profits in State Owned Enterprises, SOEs (Harik 1997:5ff).

The state developed significant features:

- ***The public sector*** become almost all encompassing and a large part of the population came to be completely dependent of it (Alissa 2007: 2, Chase 2006:209-209).
- ***Public subsidies*** were key to provide affordable basic goods to broad layers of the population, and to support loss-making public companies (Harik 1997:87).
- ***The bureaucracy grew*** to implement the expansive industry policies, and to ensure employment. All university graduates were guaranteed public employment, regardless of public need (Handoussa & El-Oraby 2004:1, Rutherford 2006:133).
- ***Industry policies*** regulated and supported national industries under the public sector, in which productivity decreased (Esfahani 1994:318, Harik 1997:42).
- ***High government expenditure*** in wages, subsidies and military expenditure led to budget deficits (Handoussa & El-Oraby 2004:1).

With a large distribution of resources and patronage as well as through repression, the regime built on support from the bureaucracy, organized labor and the army. In return for inclusion labor lost its autonomy. This "ruling coalition" was more or less intact until the economic reforms (Harik 1997:22-25), and has been referred to as a bureaucratic-based patronage system (Esfahani 1994:314).

4.3 Economic liberalization

4.3.1 Reforms are deemed necessary

By 1973 two wars had drained the public finances, and the industry policies, though initially successful, had not created long term economic development. The economy was in a crisis and in a serious need of foreign investments. Accompanied with a political opening to the USA (Esfahani 1994:318, Farah 2009:77-78), president Sadat attempted to relax economic regulations to attract foreign investment from the West and from the oil-booming Arab economies (Alissa 2007:4). Law no 43 of 1973, called the *infitah*, "opening", was passed towards that end. Private investments became allowed in certain

sectors such as tourism, banking, and investment or in joint ventures with the state (Esfahani 1994:318, Farah 2009:39).

Though marking a shift, the *infatih* did not attract increased foreign investments. Instead imports doubled and the public sector grew (Esfahani 1994:318, Farah 2009:39, Said, Chang & Sakr 1997:247). The crisis was relieved temporarily thanks to a external rents, such as foreign loans, fees from the Suez canal, oil earnings, worker remittances and tourism, which amounted to more than 40% of GDP in 1985 (Alissa 2007:4, Bromley & Bush 1994, Said, Chang & Sakr 1997:223, Rutherford 2006:135). Unemployment and inflation both ranged between 25-30 % a year between 1974-1985 (Farah 2009:41).

The economy crashed into a crisis in 1986 when oil prices decreased, which affected the whole rent-chain including the Suez Canal (Said, Chang & Sakr 1997:224, Mitchell 1994:30).

4.3.2 Agreements with the IMF and WB, reforms during 1990s

President Mubarak, who succeeded president Sadat in 1981, negotiated with the International Monetary Fund (IMF) and the World Bank (WB) the terms for economic support, but for years refused the required cuts in public service provisions, seeing them as politically difficult (Löfgren 1993:410ff). In the end the Egyptian government gave in to the pressure in 1991 and agreed to an IMF stand-by program and a World Bank Economic Reform and Structural Adjustment Program, ERSAP (Harik 1997:22), agreeing formally to lift price controls, change public spending patterns, reduce the government deficit, sell public enterprises and liberalize foreign trade (Farah 2009:42, Rutherford 2008:138ff, Said, Chang & Sakr 1997:231, Wurzel 2004:102). Extensive bilateral write-offs of foreign debt, rewarding Egypt for political support to the USA-led coalition against Iraq in the Gulf war of 1991, complemented the multilateral support (Chase 2006:210).

Especially privatization was controversial in Egypt, and despite agreements it was implemented only gradually, in an attempt to buffer the political risks. The international political importance of Egypt served to dilute the pressure from WB and IMF (Bromley & Bush 1994, Chase 2006:214, Farah 2009:80, Harik 1997:16ff, Kienle 2000:147).

Egypt was fairly successful in adopting macroeconomic stability measures, but privatization was slow. The law no 203 of 1991, "Business Sector Companies Law" mandated a reconstruction of the public sector, and was to become the basis on which privatization proceeded. The law transferred a list

of firms to public holding companies in order to have them managed more effectively with less political involvement (Esfahani 1994:319, Kienle 2000:147). When the companies had been restructured the controversial and slow privatization began. Only a third of the "law 203 companies" were privatized during the 1990s (Alissa 2007:4, Chase 2006:214ff).

4.3.3 Reforms picked up speed, the 2000s

The economic reforms, including privatization, picked up speed during the early 2000s. Additionally a number a free trade agreements were agreed upon (Alissa 2007:5).

A new government cabinet took office in 2004 with the mandate to intensify economic reform and privatization and to create a business friendly environment. It included business-associated ministers on key economic posts, and the pace of privatization picked up speed (Amin 2010, Farah 2009:48). Between mid-2004 and mid-2006 alone state assets, including land, were privatized to a value of more than 33,8 billion EGP, higher than the value of total previous privatization (Ministry of Investment 2010).

The government did not, however, reduce public sector employment, which constantly increased its share of total employment at least up to 2005 (Alissa 2007:12).

4.3.4 Reform a balancing act

The economic liberalization presented a dilemma for the regime: how could it retain political power while ceding economic hegemony? (Gray 1998:105). The government was dependent on foreign loans, but the conditions attached would undermine its control not only over the economy, but it also posed a great political risk due to potential unemployment, reduced subsidies and thereby the abolishment of the social contract (Alissa 2007:12, Kienle 2000:151).

Furthermore, opposition was significant and has been identified in the bureaucracy (Alissa 2007:14ff, Esfahani 1994:314), in the parliament⁷ (Kienle 2000:159, Mikawy, Hashem, Kassem, Sawi, El-Sawy, Showman 2000:21), in the labor unions (Hassanein 2010a, Kienle 2000:159, Paczynska 2007, Posusney 1997), within the business community (Alissa 2007:14ff, Sfakianakis 2004:86-91, Wurzel 2004:111), the courts (Rutherford 2008:68),

⁷ Unless indicated otherwise, the parliament in this study refers both to the lower house, Magilis Al-Sha'ab, as well as the upper house, Magilis Al-Shura.

the ruling National Democratic Party, NDP, and even in the cabinet itself (Ezz El-Arab 2010). However, opposition has not been united or coordinated.

The regime used announcements of policy shifts as substitutes for real reforms measures and simply abandoned other elements as a way of minimizing political risk, claiming to maintain social stability (Gray 1998:100, Posusney 1997:197, Sfakianakis 2004:83, Wurzel 2004:114-122).

4.4 Significant features of privatization

4.4.1 Importance of bureaucratic capacity

To implement reforms

When privatization was initiated officially after 1991 the Egyptian bureaucracy lacked capacity to design and implement reforms (Beshai 2010). Power was centralized in ill-trained bureaucrats, who were unpredictable and hostile to business and often demanded a kickback. In an increasingly globalized Egypt, this became a serious obstacle to attract investments (Rutherford 2008:2007).

Managers of the "law 203" public holding companies resisted privatization of the profitable companies in their portfolio, since their profits compensated to loss-making companies (Nasr 2010). Also land and asset valuation were technically difficult, as well as to negotiate with potential investors in companies to be privatized (Hassanein 2010a, Kamel 2010).

To attract international investors

In the early 1990s Egypt attracted little international investments (Marfleet 2009:21), and it became a priority to improve the investment climate in order to be able to do so (GAFI 2009, Hasouna 2010, Hassanein 2010a, Nasr 2010, Said, Chang & Sakr 1997:224). In order to be successful in international competition for Foreign Direct Investments, FDI, and improve investors' confidence in the Egyptian economy, trade liberalization and privatization were deemed necessary as well as improving the public sector in this field (Hassanein 2010a, Khattab 1999:3, World Bank 2000:7).

Even though investors complained about the government's slow pace in privatization, they deemed the inefficient bureaucracy and the regulatory environment even more serious obstacles to investments (Chase 2006:215).

Many investors developed negative experiences from dealing with government agencies that were slow to address their concerns in unsuccessful transactions (Hasouna 2010, Hassanein 2010a, Khattab 1999:26).

To secure international aid

The international donor community silently tolerated Egypt's gradualism in privatization, but pressed hard for monetary reform and trade liberalization (Chase 2006:216ff, Gray 1998:99, Löfgren 1993). Delivering on these commitments was essential to continue to secure multilateral economic support and debt relief (Kienle 2000:292, Wurzel 2004:121). Furthermore the business climate was closely monitored by the World Bank, which has commended Egypt since 2006 as a top reformer (World Bank 2010).

Also essential to maintain aid was to live up to the requirements that followed international agreements resulting from joining the World Trade Organization, WTO, and the Euro-Mediterranean Partnership in 1995, and conditionalities of foreign aid. The increase in international aid led to close contacts between Egyptian officials and international aid donors, in which professionalism was essential (Ghoneim 2005:3, Rutherford 2008:68ff).

4.4.2 Less state command over the economy

With the economic liberalization the state ceased investing in industry, agriculture, internal and external trade and limited its investments in infrastructure (El-Naggar 2009:36). Following tourism, which was the first sector to be privatized, the private sector's share in formerly state dominated industries such as banking, insurance, utilities, air transportation and telecommunications has increased substantially (Mikawy, Hashem, Kassem, Sawi, El-Sawy, Showman 2000:8), to make it dominant in the share of total GDP and total investment. The private sector's share of GDP increased from 46 % to 72% 1983-2001, and its share of total investments increased from 30% to 66% in the same period. (Ikram 2006:48 in Adly 2009:11), although not to any obvious gains in firm productivity (Omran 2003). The share of credit extended to the private sector increased from 47% to more than 70 % 1990-2002 (Mohieldin & Nasr 2003:6).

4.4.3 Spoils shifted to the private sector

In the 1980s the government gradually eased state subsidies and limited the guaranteed state employment, indicating that it no longer prioritized maintaining the social contract, (Mikawy, Hashem, Kassem, Sawi, El-Sawy,

Showman 2000:35). Patronage and asset concentration moved to the emerging private sector, relatively small in numbers and closely connected to the government (Esfahani 1994:319, Kienle 2000:145, Kienle 2004:281).

Despite decreased ownership of the economy few argue that privatization has really loosened the control of the state (Hassanein 2010b). Instead other mechanisms of control and patronage have increased in importance (Farah 2010, Sfakianakis 2004:85).

4.4.4 New channels of control and spoils

Regulation

The bureaucracy has a significant role not only in the formulation of laws but also in their implementation, and it engages with businessmen informally to grant permits or access to state resources (Youssef 1994:372). Instead of universal property rights, they have been distributed among private firms, and applied arbitrarily to favor a limited number a business interests close to the regime (Adly 2009:13), and in the same way political opponents are punished⁸ (Nasr 2010, Rasromani 2006).

Land

Land and real estate has increased in importance to the economy. The share of property assets to the country's GDP has increased from 50% in mid 1990s to 80% in 2006 (El-Naggar 2009:49). The government regulates access to public land for real estate development. Some investors have been able to acquire public land to prices much lower than market prices without transparency (Beshai 2010, El-Naggar 2009:49, Farah 2010).

Low transparency in privatization process

"Opportunities [of corruption] that had never been seen before opened up with privatization"⁹.

"Economic liberalization has become a conduit for channeling corruption" (Farah 2010).

⁸ A specific example mentioned by several sources are inhibiting and arbitrary regulations on newly controversially privatized retailer Omar Effendi. Anonymous business woman (2010).

⁹ Anonymous business woman (2010), former employee at Omar Effendi

The complex privatization transactions have been claimed to offer opportunities to rent, and accusations describe corruption. The process has been without transparency, at least in the early stages (Hassanein 2010b, Kienle 2000:151ff). Many assets were sold under-priced, at nominal rather than market prices in the absence of competitive bidding to a few politically selected investors (Adly 2009: 13, Farah 2009:49-51).

It is also claimed that top echelons of the bureaucracy have joined forces with the new private sector, focused of capitalizing on access to political power for the appropriation of state assets through privatization (El-Naggar 2009:36, Sfakianakis 2004:79-80, Wurzel 2004:107, 118).

Access to credit and public procurement

Through the 1990s, a few businessmen had privileged access to public bank credit. Given the high concentration of loan provisions the "few lucky" big debtors were often tied to the ruling regime in one way or another. Also public procurement processes are handled without transparency (Adly 2009: 13).

Privileged market access to private monopolies or oligopolies

Privatization did not break up monopolies. On the contrary, monopolies and oligopolies in private ownership have increased (Farah 2009:80-81, Sfakianakis 2004:94), in for example the multi-media, steel, beverages and cement sectors. Entry to these sectors has been restricted with regulation and special privileges were extended to businessmen or families close to the regime (Adly 2009:13). The Egyptian cement industry has been pointed out as sustaining a price cartel (Beshai 2010, Hassanein 2010a).

4.4.5 Changing coalition and a new constituency

Labor and the state bureaucracy were considered constituents to the ruling coalition in the 1970s and 1980s, but during the 1990s they fell out of the inner core of that coalition (Harik 1997:197, Posusney 1997:117-118). With the sale of public enterprises the government lost or gave up public service workers as a prioritized constituency (Mikawy, Hashem, Kassem, Sawi, El-Sawy, Showman 2000:35). Labor was misled about the effects privatization would have on employment (Hassanein 2010a), and since the 1990s workers and more recently, civil servants, have turned to street protests (Ezz El-Arab 2010).

Businessmen have gradually become more influential since the 1970s (Löfgren 1993:414), and have become an increasingly important part of the ruling coalition (Mikawy, Hashem, Kassem, Sawi, El-Sawy, Showman 2000:27, Wurzel 2004:114) in what has been called “a marriage between money and authority”¹⁰.

Businessmen increased their presence in the parliament (Alissa 2007:10) after a new electoral law that allowed for individual candidacies was passed in 1990 (Mikawy, Hashem, Kassem, Sawi, El-Sawy, Showman 2000:27). They raised their share of the parliamentary seats from 12% in 1995 to 22% in 2005 (Adly 2009: 18).

Some businessmen in parliament have a poor record in legislation, and have not even been present in the assembly to any high extent (Mikawy, Hashem, Kassem, Sawi, El-Sawy, Showman 2000:33). Most have arguably turned to parliament primarily to gain access to contacts and channels for business deals (Sfakianakis 2004, Wurzel 2004), and have accordingly joined the ruling NDP (Mikawy, Hashem, Kassem, Sawi, El-Sawy, Showman 2000:45).

Businessmen have also been recruited to important government portfolios such as minister of investment, trade and finance etc. They have not been subject to the same allegations of corruption, but on the contrary show a strong record of achievements (Amin 2010, Ezz El-Arab 2010, Galal 2010).

Despite poor legislative records of some businessmen in parliament, the private sector as a whole has had a strong influence in shaping economic policy (Beshai 2010). As the NDP chairman, and possible new president after his father, Gamal Mubarak has been responsible for shaping the new economic liberal stance of the party, and has in this process deeply involved the business sector (Amin 2010, Badcock 2004:58-59, Farah 2009:48, Shehata 2008:419). The government, however, still controls the power balance among actors dependent on it for support (Alissa 2007:17ff, Mikawy, Hashem, Kassem, Sawi, El-Sawy, Showman 2000:44, Sfakianakis 2004:82, Wurzel 2004:123, Adly 2009:15).

4.4.6 Circumventing internal resistance

It is difficult to assess the inner workings and power dynamics of the Egyptian government. But there have been signs of significant tension over privatization also in the cabinet itself (Ezz El-Arab 2010). The president has shifted his public commitment to the process several times, often correlating with peaks of public outrage, most recently since 2006 with the privatization of Omar Effendi (Galal 2010, Nasr 2010). Proponents of privatization have

¹⁰ Anonymous business woman, former employee at Omar Effendi

on several occasions used informal, "extra-legal" or strictly illegal tools to push the process ahead, such as pilot projects, secret policy committees and reinterpretation or diversion of passed laws (Ezz El-Arab 2010).

The government has also combated its own authorities (Radwan 2010) and managers of the "law 203" public holding companies (Nasr 2010). With the establishment of "investment zones", the government has circumscribed the normal bureaucracy, with a single agency that handles all interaction with the companies investing in the zones (Rutherford 2008:246).

It is suggested in one source that the Technical Offices are established to circumscribe parliamentary resistance (Peters 2009:1), but it has no support in other sources.

5 Explaining meritocratization with the hypotheses

Based on the significant features of the Egyptian privatization, how can the hypotheses proposed explain meritocratization?

H1: The potential economic gains from a meritocratized bureaucracy in terms of a taxable base increase.

As a result of economic liberalization, a new private sector came to dominate economic activity. Controlling a much larger part of the economy, private economic activity increased in importance. Potentially it can produce a much larger taxable base than before under statism. Domestic investors identified the patronage-based bureaucracy as a serious obstacle to investments, and signaled increased potential benefits from meritocratization, at least in the investment bureaucracy.

Integrated into the global economy, potential great increases in the taxable base were identified in attracting foreign investment. To provide investors with an investment bureaucracy that would instill confidence was a top priority.

Perhaps a bit simplistic, foreign aid can also be said to contribute to the government's taxable base, or at least revenues. It was deemed essential that at least parts of the bureaucracy could handle contacts with foreign donors to instill confidence and maintain economic aid.

H2: The importance of utilizing the bureaucracy for patronage decreases relative to other channels.

The government turned increasingly to the newly emerged private sector for political support, and it gave up the social contract and ambitions to co-opt labor and civil servants. Utilizing the bureaucracy as a channel of patronage decreased in importance, as other channels became more suitable considering the new constituency. Resources were shifted to the private sector, but the government maintains regulatory control, which is used for patronage.

H3: The difference in potential yields in political support from providing public goods compared to providing private goods increases.

The private sector constituency pressed for economic liberalization and an improved business climate including the bureaucracy, thereby increasing the potential political yields from a public good such as a meritocratized bureaucracy in the investment sector.

Foreign aid was partly conditioned on economic reform and an improved business climate. Being successful in both areas promised political yields in the international community.

H4: New constituencies that would be too costly to accommodate with private goods alone emerge.

Being a constituency that is resource strong and to some extent mobile across borders, the private sector is potentially costly to accommodate with private goods alone, despite being small in numbers.

Arguably, international investors and international political pressure can be viewed as constituencies as well. In that case, these actors seem impossible to accommodate with private goods.

5.1 Loose ends

It was briefly suggested that the Technical Offices might serve as circumventing parliamentary resistance to privatization (page 35). This argument holds no great support in other sources, but may nonetheless be accurate. It would in that case follow the idea of insulating the bureaucracy from opponents in a horizontally fragmented polity, which was presented in the theory chapter, but disregarded in this study since an autocratic country was assumed to have low or little horizontal fragmentation. The controversy of privatization, however, could have produced an exception, and resistance and opposition to privatization have indeed been described. Changing institutions as a way of overcoming resistance to reform has been described elsewhere (e.g. Malesky 2009), but focused on changes in the legislature rather than in the bureaucracy.

6 Conclusion

6.1 Egyptian partial meritocratization

Does the "Technical Office for Privatization" qualify as meritocratization? This study argues that it does.

It is a bureaucratic entity in which recruitment is primarily focused on hiring competent staff that fulfills specified and transparent position requirements, that allows for performance-based advancement and market-based compensation. The opportunity for patronage-based recruitment is limited compared to the regular bureaucracy to the extent that they are qualitatively different entities. As such the Technical Office is argued to qualify as meritocratization.

What explains this meritocratization? Hypotheses derived from two models on meritocratization (Lapuente & Nistotskaya) and clientelism (Magaloni, Diaz-Cayeros & Estévez 2007) respectively explain how the significant effects and features of privatization could result in a, albeit limited, meritocratization.

Theoretically, meritocratization is viewed as a change in an equilibrium between patronage and merit, and private and public goods. During the privatization potential losses and gains changed and shifted the equilibrium in favor of merit, at least in the "Technical Office for Privatization".

Summed up in a narrative: (1) As the private sector came to dominate the economy, increased potential gains from establishing trust and encourage private investments, domestic and international, through a competent and meritocratic bureaucracy became clear. (2) The Egyptian regime abandoned old constituencies to which patronage in the bureaucracy was directed, instead prioritizing as a constituency the new private sector. (3) Potential political yields from increasing the meritocratization (public good) in the field of investments and privatization increased with the new constituency and with international pressure for implementation of economic reforms. (4) The private sector as a constituency is costly to accommodate only through private goods. They demand a public good – an improved investment climate.

Additional pressure came from the international donor community and international financial institutions on the Egyptian government to reform. Though perhaps not clear-cut constituencies, they could be accommodated with public goods only.

6.2 Theoretical conclusions

This study has considered meritocratization in only a part of the Egyptian bureaucracy. Focus has been on concrete meritocratic features of the bureaucracy rather than formal legislation. These are two uncommon ways of viewing meritocratization, but by doing so it has allowed for the study of an arguably significant meritocratic change, but in a different analytical unit than in other studies. The difference between the Technical Office and the regular bureaucracy is significant and demonstrates that largely the same bureaucracy may experience different levels of patronage and meritocratization. In extension this suggest that rather than, as Lapuente & Nistotskaya frames meritocratization, "giving up the spoils of office", the process may have more to do with *shifting* spoils to new constituencies and through other channels.

Covering two different aspects of patronage – the incumbent is interested in *both* increasing its taxable base and thereby increase resources for patronage, *and* distributing patronage to secure the constituencies' political support – has complicated the study of meritocratization, but in turn presents a fuller view of a regime's considerations.

6.2.1 Demarcations and loose ends – further research

An important demarcation that could have been significant in the study is how repression of different sorts can influence political support or opposition. As mentioned earlier, economic liberalization in Egypt has not been followed by political liberalization.

The hypotheses did not explicitly include international factors, such as foreign aid and conditionality or international competition for FDI, but they have been considered nonetheless. In the explanation of the meritocratization they are key to the shift in patronage equilibrium. Perhaps further research should elaborate more on how foreign donors form a "constituency" of sorts.

Horizontal political fragmentation has not been considered on the basis of the Egyptian government being an authoritarian regime, with a high concentration of power in the executive. Nevertheless, sources suggest that even the Egyptian executive has struggles with other parts of the government, such as the legislative branch, on a number of issues. Privatization, being an extremely controversial policy, may be one issue in which horizontal fragmentation has been significant even in Egypt.

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