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INSTITUTIONAL ANALYSIS FOR  
AGRICULTURAL POLICY REFORM

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## TABLE OF CONTENTS

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	<b>Page</b>
EXECUTIVE SUMMARY	1
SECTION I THE CONTEXT FOR AGRICULTURAL POLICY REFORM	5
A. Agricultural Policy Reform Program	5
B. Economic Context	6
B1. Macro Policies	6
B2. General Micro Policies	6
B3. Agriculture	8
C. Perceptual Context in Which APRP Will Operate	9
D. Array of Interests Affecting Agricultural Reform	10
D1. Interests Opposed to Reform	12
D2. Interests Supporting Reform	14
D3. Implications of the Array of Interests	15
E. Egyptian Political and Administrative Context	16
F. USAID Program Management Context	20
G. APCP Legacy	22
H. Limited Resources -- Implications for Institutional Arrangements	23
SECTION II OBJECTIVES FOR THE APRP INSTITUTIONAL STRUCTURE	27
A. Intensify, Broaden, and Deepen Policy Dialogue	27
B. Develop Management Capacity Within the Program	28
C. Formalize Program Management Procedures	28
D. Insulate Program Management from a Host Institution	28
E. Retain Support of MALR	28
F. Enlist Support from Other Key Ministries	29
G. Enlist Support from Quasi-Governmental Institutions	29
H. Give Voice to Affected Interests	29
I. Reduce the Role of Public Sector and Governmental Functionaries	29
SECTION III ALTERNATIVE ORGANIZATIONAL DESIGNS	31
A. Modified "Traditional" Structure	31
B. Alternative Model I	31
B1. The Ministerial Committee	34
B2. Program Planning Committee	35
B3. Task Forces	38

B4. Technical Assistance Unit	40
B5. Monitoring and Verification Unit	41
B6. Analysis of Alternative Model I	41
C. Alternative Model II	42
D. Flow of Work Within the Alternative Models	44
APPENDIX A UTILITY OF PROPOSED INSTITUTIONAL FRAMEWORK	A-1
APPENDIX B MINISTRIES, PUBLIC SECTOR, AND PRIVATE SECTOR IN THE AGRIBUSINESS	B-1

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## EXECUTIVE SUMMARY

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Many different factors will have an important impact on the implementation of APRP. Principally these include: Egyptian economic and agricultural policy; the “perceptual” context in which APRP will take place; the political and administrative context; and USAID program management, including the legacy of a predecessor project, ACP. The program design, particularly the program’s organizational configuration, needs to reflect these factors.

The economic context involves Egypt’s movement towards a market-oriented, private-sector-driven economy. As this trend progresses, it is making new and diverse demands on government decisions, priorities, and activities, on both the macro- and micro-economic levels, and including many of the areas in which APRP will function.

The perceptual context is one in which both the GOE and USAID share a commitment to reform, but differ over their assessment of past successes and over the speed and thoroughness with which future changes should be implemented. Given differing orientations toward the tactics of reform, it is probable that the pace and pattern of economic liberalization—now well established—will continue to be measured, incremental, and not invariably unidirectional. Policy dialogue will continue to involve numerous issues as it moves from the macro-economic framework to specific micro-economic reforms. The distribution of support for and opposition to reform also lends support to the argument that reform will continue to proceed in incremental fashion.

The political/administrative context also has major implications for the design of APRP, in that institutional arrangements will need to be designed to achieve the following objectives: retain the support of the MALR and its minister; diversify and deepen cabinet and subcabinet support for reform; foster linkages among individual and institutional proponents of reform; find an appropriate role for reform-supporting, quasi-governmental institutions; and pursue reform at the microeconomic level and on a case-by-case basis.

The current USAID program management context requires that APRP relationships and structures be formalized, and that an internal management capacity be developed within the program. The program management structure should be inclusive and representative of varying interests, but these objectives should not be pursued in such a way as to jeopardize the coherence of decision making and implementation. The legacy of ACP, although positive in most regards, does not include an organizational model that should be emulated by APRP, whose broad, multi-sector objectives would be incompatible with the ACP straight-line management structure.

Using these political, economic, and institutional factors as a starting point, Section II of this report lists various objectives that must be achieved in designing an institutional

structure for APRP. These objectives can be summarized as follows:

- Intensify, broaden, and deepen policy dialogue
- Develop management capacity within the program
- Formalize program management procedures
- Insulate program management from a host institution
- Retain the support of the MALR
- Enlist support from other key ministries
- Enlist support from quasi-governmental institutions
- Give voice to interests affected by reform
- Reduce the role of public sector and governmental functionaries

Pursuant to these objectives, Section III presents three alternative organizational models. The first represents a traditional, straight-line, single-ministry program, modified by the addition of special units to provide technical assistance on the one hand, and monitoring and verification on the other. In all other respects the organizational structure is identical to that used for APCP. The primary strength of this arrangement is its simplicity. Its deficiencies are that it provides no linkages to other ministries or affected interests; it does not contain an internal program management capacity; and it provides little scope for creative program management techniques.

An alternative, more elaborate structure has organizational components at three levels. At the top level are the Ministries of Agriculture, Supply, and Public Enterprise, constituted as the Ministerial Committee. Agreements would be signed with these three ministries. Below the level of the Ministerial Committee, a Program Planning Committee (PPC) would assume responsibility for planning, programming, and program management. The three ministries would have representatives with voting rights on the PPC, while up to three other ministries would have ex-officio members, as would USAID. The PPC would have a full-time program coordinator and a Management Unit composed of a director, deputy director, and financial specialist.

The PPC would direct the activities of a third organizational level, which would include various task forces, a Technical Assistance Unit, and a Monitoring and Verification Unit. The task forces would either be permanent or ad hoc. They would include representatives of relevant ministries, other institutions, as well as affected interests. They would be chaired by a member of the PPC, and would receive assistance and guidance from the deputy director of the PPC Management Unit. They would be responsible for developing project concepts into full-blown project proposals.

The Technical Assistance Unit would have a director and a small in-house staff of technical experts, with significant capacity to recruit, manage, and deliver appropriate technical assistance. The Monitoring and Verification Unit would have a similar composition. Both would work with the task forces on a regular basis, providing input to project development.

This alternative model provides linkages among ministries and to other institutions and relevant interests. It has a more formalized operational structure and includes an administrative/managerial capacity. Its perceived weaknesses are potential problems of interministerial cooperation; the complexity and diffusion of authority that could militate against timely and effective decision making; and some ambiguity concerning how this institutional structure would deal with ministerial initiatives to meet benchmarks, on the one hand, and project proposals on the other.

A second alternative model also is presented. It places the PPC directly under the Ministry of Agriculture, as the principal ministry involved with APRP initiatives and therefore addresses many of the perceived difficulties involving coordination, efficiency, and timely decision making. It does continue to provide liaison, coordination, and funding of other ministries' projects and initiatives through an ad hoc interministerial committee, and through ministerial representation on the PPC and on the task forces.

Because of the complex and ambitious objectives of APRP, its central organizational structure will need to have the capacity to support a "bottom-up" approach to policy reform. This approach requires the ability to interact with numerous actors from different institutional settings, while ensuring coherent, autonomous management of the program. For this reason the traditional institutional arrangement is basically inadequate, and either alternative model appears preferable.

Section III describes these organizational models in detail. It outlines their composition and staffing, the rationale behind the structure, roles and responsibilities for each component of the model, and operational procedures. Finally, it provides an analysis of the advantages and disadvantages of the various alternatives and describes the flow of work through the organizational structure.

Two appendixes were prepared as independent assessments of some of the analyses and recommendations in this report. Appendix A, prepared by Dr. Dean Ethridge, assesses the possibilities of privatizing the cotton textile sector within the context of the institutional arrangements discussed in this report. The assessment concludes that the components of the textile action plan are compatible with the proposed institutional arrangements. Appendix B, prepared by Dr. Muhammad Ragaa al Amir, evaluates the interministerial configuration for APRP against the context of structural adjustment and concludes that a tripartite committee structure is preferable.

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## SECTION I

### THE CONTEXT FOR AGRICULTURAL POLICY REFORM

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#### A. Agricultural Policy Reform Program (APRP)

The APRP is geared toward addressing the main constraints facing agriculture and closely related sectors within the context of the broader reform program aimed at transforming Egypt into a private sector dominated open market economy. Its purpose is to complete the reform process in which its predecessor, the APCP, played an important role.

The key components of the APRP are as follows:

- Complete liberalization of agricultural marketing and the removal of barriers to agribusiness investment in other areas;
- Privatization of key agriculture-related industries (textiles; rice, wheat and feed milling; fertilizer production);
- Rationalization of public investment in land, water and research, including reform of key public institutions;
- Removal of untargeted consumer subsidies; the development of food and income programs targeted to the very poor and a broad food security program;
- Enhanced agricultural sustainability via cost recovery and other measures protecting the environment.

Central issues in the design and implementation of APRP are:

- Institutional arrangements for policy dialogue and technical assistance and the amount of technical assistance;
- Targeting performance payments in support of the policy dialogue;
- Level of engagement with the principal barrier to privatization and institutional reform, i.e., labor redundancies;
- Degree of formal coordination among the APRP, Privatization Project (TI/FI), Sector Policy Reform Program (EAP), ATUT, and IMI.

The discussion below focusses on the various contexts—economic, political, perceptual, and institutional—that will have an impact on APRP and therefore will need to be considered as part of the design process.

## **B. Economic Context**

### **B1. Macro Policies**

From the mid 1970s to the early 1990s, the Egyptian economy suffered from severe macro imbalances manifested by high inflation, large government budget and current account deficits, and a growing foreign debt. The macro reforms of the last three years changed this situation dramatically. The budget deficit was reduced to a manageable level (around 2.5% of GDP) and the rate of growth in the money supply declined. After having been fixed at levels below inflation, interest rates were liberalized and are now positive in real terms. In the foreign exchange area, the government merged multiple rates to a single rate. After an initial devaluation in 1991, the Egyptian pound has been floating at relatively fixed nominal levels vis-a-vis major currencies, including the U.S. dollar, a result achieved by means of Central Bank interventions in currency markets. The capital account was also liberalized. In response to high interest rates and stable exchange rates, remittances and short-term capital flows rose dramatically, bringing about a spectacular increase in Egypt's foreign exchange reserves, currently at \$16bn. Debt forgiveness in the context of the Gulf war and the Paris Club has added to the rosy foreign exchange situation. Exchange rate stability and high interest rates in combination with lower budget deficits and less money supply growth reduced the rate of inflation, for the CPI from some 20% to a 12.5% in 1993, and even less now.

### **B2. General Micro Policies**

Micro policies aimed at structural change have covered administrative price controls, foreign trade, public sector reform, privatization, and the conditions for private sector activities. In the first area, prices of petroleum products were raised from 33% to 90% of the international level between the spring of 1991 and late 1993, whereas, during the same period, electricity prices climbed from 25% to 80% of the long-run marginal cost. For the industrial sector, all prices except for pharmaceuticals and a few other goods have been decontrolled. Subsidies on controlled food prices have been reduced substantially since 1991, although the socially and politically important bread subsidy remains largely intact.

In foreign trade, restrictions have been reduced significantly. The number of goods subject to export and import bans was cut drastically and the standard range for minimum and maximum tariffs was narrowed from 1-240% to 10-70%. The consequence is that new export opportunities have been opened up and local production has become more exposed to competition from imports, together bringing relative price levels closer to their international equivalents.

In 1991, a reorganization of the public sector was initiated. More than 300 public companies are now subsidiaries under independent holding companies, replacing the previous general organizations that controlled state enterprises along the lines of government ministries. In principle, the companies are run on commercial lines, competing on equal terms with the private sector. They may be leased or sold to the private sector. While some public assets have been sold (e.g. land assets and small projects owned by the governorates), the core of the privatization process is still in its infancy—after three years, only three companies belonging to holding companies have been sold. The conditions for the already existing private sector, nevertheless, have improved as a result of price liberalization, financial reforms (making access to credit easier), and a more encouraging regulatory environment, including stronger guarantees for investors and less complicated investment approval procedures.

A final policy component in the micro area is measures to minimize short-run negative social effects from other policies. The cornerstone in this area is the Social Fund for Development, the purpose of which is to facilitate structural adjustment by supporting, *inter alia*, small labor-intensive projects and public works. After a slow start—in its first year (1991), it did not implement or support a single project—it has recently become more active. In early 1994, it disbursed \$97 million out of \$613 million in donor pledges, creating a claimed 95,000 jobs (some of which are temporary). Nevertheless, the limited size of the fund and the absence of an effective social security network add to government hesitation about reforms that have short-run negative social effects.

As a result of progress already made, the four main challenges in the micro area have now become to speed up privatization and growth in the existing private sector, create a targeted social safety net, improve management of natural resources and the environment, and enhance the efficiency of government decision making.

With regard to privatization, the legislative and institutional framework has been put in place. The main obstacle is political hesitation, reinforced by the severity of labor and social issues. Among the measures that could facilitate the privatization process are restructuring of selected public sector firms, retraining and voluntary retirement of excess labor, and the development of a social safety net. More broadly, political stability and higher over-all growth would also make it more attractive to acquire public sector assets.

While price distortions today are much less severe than just a few years ago, the efficiency of both private and public sector actions will be enhanced as the government implements plans to bring electricity and petroleum prices to international levels, narrow the range of import tariff rates, and remove non-tariff barriers and untargeted consumer subsidies. In the short run, most of these actions may, however, add to inflation and discourage growth.

The elimination of untargeted consumer subsidies reinforces demands for a social safety net protecting the very poor, most likely requiring the design of innovative programs

tailor-made for Egyptian conditions. A necessary starting point is the collection of new data and improved use of available information about poverty in Egypt.

Egypt's resources of water and fertile land are becoming increasingly scarce and, together with the air, increasingly polluted. Government and public concern about these events has grown in recent years, placing new demands on government policies that support investments in natural resources and penalizing activities that cause environmental damage.

Finally, a general implication of the above discussions is that new and diverse demands are put on government decisions and activities as the government withdraws from old areas and takes on new responsibilities in a market-oriented private-sector driven economy. Some of the most immediate priorities for government actions are implicit from the above discussion: support privatization, solve labor market problems, and design new social programs. There is also a strong need to generate economic information that is widely disseminated in a timely fashion and to develop capacity to analyze the impact of policies and quickly respond to changing circumstances.

Government statements indicate that it intends to implement a program in accordance with these priorities. However, the pace of change may slow further for two primary reasons. First, as a result of domestic political instability the government has become more cautious. Second, the structural reforms that have not yet been implemented or completed, especially privatization, are politically difficult and sensitive. Moreover, after the expected third and final round of Paris Club debt cuts at the end of 1994, the leverage of the IMF, the World Bank and foreign donors over Egypt's economic policies will be reduced, a factor that should further add to the slowdown.

### **B3. Agriculture**

The agricultural sector has played a leading role in the process of economic reform. In the mid-1980s, the sector was still highly regulated, with area controls, fixed prices, delivery quotas and public sector marketing monopolies for most crops, except fruits and vegetables. Except for labor, all major variable inputs were heavily subsidized. The situation of the mid-1980s is in sharp contrast with conditions prevailing in the fall of 1994, as the sector now has become the most liberalized sphere of the economy:

- **Area Restrictions**—With the exception of sugarcane, there are no area restrictions.
- **Crop marketing and pricing**—Farmers are free to choose between public and private sector traders for all crops except sugarcane and soybeans. For cotton, a law was passed in May 1994 allowing private sector traders to deal in lint (competing with the public sector) at unregulated prices. A second law passed in May provides for reestablishment of the Alexandria cotton exchange. Private sector prices are not controlled by the government. Floor prices, aimed at protecting the farmer from strong price fluctuations, are in force for all major crops.

- **Inputs**—Unsubsidized market prices are charged for feed, fertilizers, and pesticides, all of which were previously heavily subsidized. Subsidies on interest rates for agricultural loans have been significantly reduced. The share of the private sector in input distribution has increased, especially for fertilizers where it is responsible for 90%.

In addition, land rents are in the process of being liberalized over a five-year period and state-owned assets (land and agricultural projects) have largely been privatized. The fact that these changes closely coincide with the goals of the APCP attests to the success of this project in supporting policy change in the agricultural sector.

### C. **Perceptual Context in Which APRP Will Operate**

**Egyptian View.** The prevailing consensus within the GOE, as well as among significant sectors of the articulate public, is that Egypt has made great progress in reforming its economy. That the stabilization program has been largely implemented without severe disruptions to the political economy, is contrasted to less successful reform programs elsewhere, especially those in the NIS. The ingredient typically identified as being most vital to Egypt's comparatively successful experience with economic reform is that of gradualism. Unlike rash, across the board reform programs elsewhere, Egypt's incremental, segmented approach to reform is attributed with 1) having maintained production and employment in the public sector as it has been gradually privatized; 2) having contributed to growth in the private sector; 3) having reduced consumer subsidies while avoiding severe social and political unrest; and 4) having instituted fiscal and monetary reforms that have stabilized the currency as it has been moving progressively toward full convertibility. In sum, informed Egyptians from various backgrounds take pride in the comparative success of their reform program, some going so far as to claim that it is an appropriate model for others to copy, a model that is responsible for Egypt becoming "the New Tiger" of the Mediterranean.

Because an incremental approach resulted in successful macroeconomic stabilization, it is deemed the appropriate manner in which to undertake structural adjustment. The Egyptian view is that there is no need to change the "steady as she goes" course, for it has brought the political economy to its present, comparatively favorable position. Reinforcing this view is the fear that more abrupt reforms might stimulate a negative popular reaction. With large numbers of security forces already occupied in confronting an Islamist-inspired insurrection in Upper Egypt, the danger of strikes, demonstrations, or other manifestations of civil disorder elsewhere in the country is acutely felt throughout the GOE. To provoke such reactions by a headlong rush to privatize, further reduce subsidies, and otherwise implement IMF/World Bank-mandated structural adjustment, would almost certainly exacerbate a serious situation.

Sensitivity to socio-political backlash was amply demonstrated by the GOE's response to a strike at a public sector spinning and weaving company in Kafr al Duwwar in the first week of October 1994. After forcibly quelling the strike and accompanying demonstrations, the GOE acceded to all worker demands. The prudent approach, and one that has

demonstrated its superiority, is generally thought to be a cautious, piecemeal one that avoids disruptive and potentially disastrous confrontations.

**U.S. View.** A common U.S. assessment of the Egyptian economic reform program is that it is more "pussycat" than "tiger." Where Egyptians see success, Americans tend to see lost opportunities. Where Egyptians see that reform has been executed with skillful precision, Americans see that Egypt, even when benefitting from huge windfall gains, has had to be forced to adopt timid reform measures. Whereas Americans question whether there is adequate political will to implement structural adjustment with the speed and thoroughness required to meet pressing demands for economic growth and job creation, Egyptians resent such skepticism and feel they are far better equipped to orchestrate structural adjustment so that it does not lead to a socio-political explosion or subsequent backsliding.

These two views are highly discordant. The American view emphasizes the need for urgency and thoroughness of reform, while the Egyptian one stresses caution and the need to maintain old structures and practices while new ones emerge. Neither view, of course, is monolithic, but their centers of gravity are sufficiently coherent and distant from one another to make policy dialogue a challenging and frequently frustrating endeavor for both sides.

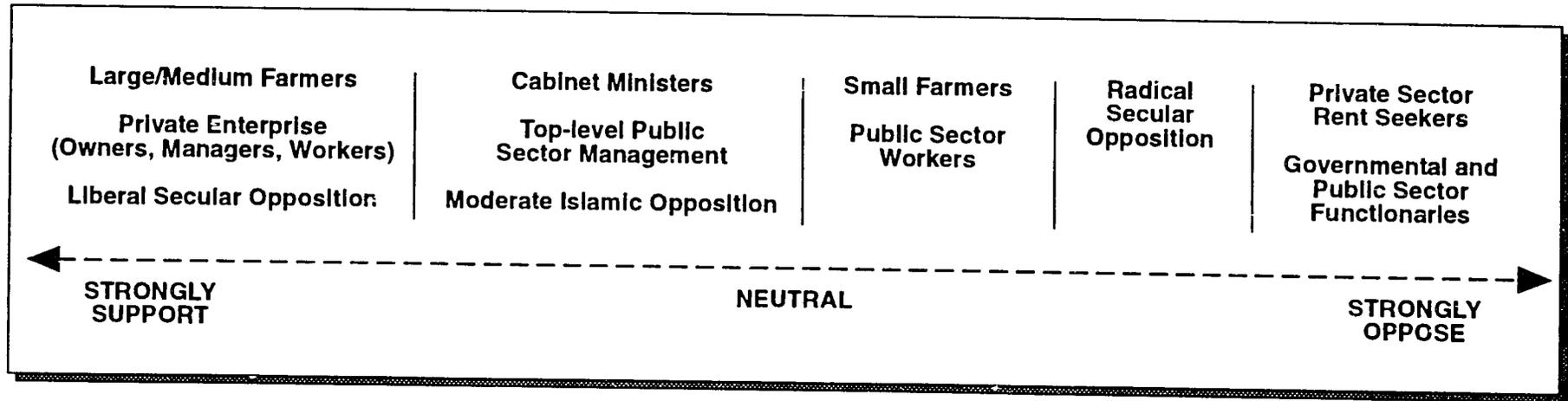
**Implications of the Perceptual Context.** Both Egypt and the United States are committed to policy reform in all sectors, but there are sharp differences of opinion as to how reform should be implemented. In some instances, there are disagreements over how deep the reforms should be. Given these contrasting views, it is probable that the long-established pattern of reform and policy dialogue will continue. According to that pattern, the pace and degree of reform is measured, halting, and, with the exception of extraordinary external interventions such as the Gulf war, determined primarily by domestic developments.

This incremental approach is frustrating to those who fear that reform is not moving quickly enough to meet the ever mounting challenges of a rapidly growing population and increased global competitiveness. Interactions between donors and the GOE are likely to continue to be more akin to a "guerilla war" than to a single, decisive engagement. A major breakthrough is unlikely. Instead, skirmishes over a host of issues, involving numerous institutional and personal actors, will continue, with the skirmish line gradually moving in the direction of reform. How quickly the line moves will be determined in part--but only in part--by how effectively and consistently donors apply pressure.

#### **D. Array of Interests Affecting Agricultural Policy Reform**

While each policy initiative stimulates a reaction by actors whose interests are affected, the thrust of overall economic reform is sufficiently coherent to describe reactions to reform in the aggregate, rather than with regard to each specific measure. Figure 1 arrays group interests vis-a-vis reform along a continuum, ranging from strong support to strong opposition. What is noteworthy about this configuration, especially with regard to the issue of

FIGURE 1. REACTIONS TO REFORM



privatization, is that:

- The opposition of public sector workers is less profound than that of middle level public sector administrators/managers;
- Both government and opposition actors are divided by the issue of reform, thereby suggesting that over the long run new coalitions are likely to be formed;
- High status actors who dispose of considerable political/economic resources tend to favor reform, while medium status actors whose resources and status are declining tend to oppose reform.

A more detailed description of actors' interests and capacities follows below.

### **D1. Interests Opposed to Reform**

**Small Farmers and Public Sector Workers.** Small farmers and public sector workers, despite differences on specific issues, nevertheless share an overall orientation toward economic reform. That orientation is more one of skepticism or apprehension, than it is of dedicated, outright opposition. Figure 1, which is two dimensional, does not reveal two other important dimensions, which are intensity and homogeneity of attitudes. Were these dimensions included, they would reveal public sector workers and small farmers as having less intense and more varied attitudes than many other actors. This diversity is due in considerable measure to the objective reality of their conditions. Some workers and small farmers will gain from economic reform, while some will lose. Most, however, do not know whether they will be winners or losers, both because they do not control their destinies to the degree that many other actors do, and because they simply lack information necessary to make an informed choice. While they are suspicious of reform and moderately opposed to it, their typical attitude is more that of wait and see, for opportunities may arise.

Both public sector workers and small farmers were incorporated into the system of production within the planned economy in such a way as to provide them more or less a guaranteed (but low) return for minimum effort on their part. Many workers and farmers have skills that in free labor and capital markets will enable them to prosper, although not all will. Many of those who will benefit from privatization are not yet aware of that possibility. The reform task with regard to this audience, therefore, is to communicate what new opportunities are likely to be made available, and to ensure that those with appropriate skills are incorporated as quickly as possible into an expanding private sector. In the meantime, their opposition to reform is likely to be episodic and heavily dependent in particular instances on whether decision makers are perceived to be trustworthy and cognizant of worker and small farmer interests.

That public sector workers especially, and small farmers to a lesser degree, will militantly resist change, is a prognosis that serves the interests of those in the

administrative/managerial apparati that have grown up above public sector workers and small farmers. In the public sector textile industry, for example, the *Assessment of Potential for Liberalization and Privatization of the Egypt Cotton Textile Subsector*, submitted in 1993, notes that "direct production laborers in the public sector are not in excess and are correctly allocated." The report goes on to observe that the work force in administration and related areas is "50 percent as large as the direct production work force," is better paid, and vastly surplus to requirements. (p. IV-10).

Public sector workers and small farmers are not an insurmountable obstacle to reform of the agricultural or manufacturing sectors. The Sorelian myth of the "general strike," which has its Egyptian equivalent in popular lore and is hinted darkly at by numerous other actors, especially those managing or administering the affairs of workers and small farmers, will indeed remain myth so long as labor relations are handled in a reasonably sensible fashion.

**Mid-level Public Sector Management/Administration and Ministerial Bureaucracies.** It is these actors who stand to lose the most from reform, hence they oppose it most strongly and effectively. Their skills are either of limited relevance in a fully privatized economy, or so badly deteriorated through lack of use that their prospects in the private sector are dim. Their actual leverage over policy reform, however, is limited, for they do not constitute a mobilized, system-threatening group. Their tactics are to subvert reforms from within, to point to the dangers of reform (e.g., the myth of the general strike), and in general to drag their heels. In the face of dedicated reform leadership, their resources and tactics could do little more than delay the inevitable. When confronting cautious leadership that is not united behind specific reforms, their ability to deflect or altogether subvert reforms is considerable. Any strategy for reforming the political economy should seek to diminish the voice and influence of these functionaries. Reform requires that their interests be negatively affected.

The political role of these functionaries is in many cases as or more important than their economic one. Broadly speaking that role has been to provide the support of their "clients" (e.g., lower ranking bureaucrats, small farmers, workers) for the government and its political party. Such functionaries have played key roles in delivering votes in elections. The MALR, for example, has 450,000 employees, which constitutes almost ten percent of the electorate that has voted in recent parliamentary elections. Those employees are in turn in positions to influence the political behavior of some portion of Egypt's four and a half million farmers. PBDAC alone, with its almost 40,000 employees, has been said to be the major political base for 30 members of parliament. As both the economy and polity liberalize, the control exerted by these functionaries will necessarily decrease. If, however, the level of civil unrest were to increase, the government could be expected to slow the pace of reform, thereby prolonging the influence of this actor.

**Private Sector Rent Seekers.** A share of the private sector assures profitability through rent-seeking arrangements with the public sector or state administration. Such rent seekers are opposed to changing the status quo. The influence of rent seekers on both sides of the transaction, however, is limited to subverting the reform process. Rent seekers are not in a

position to mobilize public support behind their cause, or even to gain broad governmental support. Tactics of subversion can be exposed and countered by dedicated reform leadership.

**Radical Secular Opposition.** Until recently this element vocally opposed most aspects of economic liberalization. Since about 1991, however, its opposition has diminished, targeting specific aspects of reform rather than reform per se. Bargaining over proposed changes to labor laws reflects this change. Whereas previously the radical secular opposition opposed any change to those laws, now that opposition is engaged in a process of debating how laws can be changed to secure the "rights" of workers while privatization and other reforms proceed. This increasingly realistic stance reflects growing acceptance among the potential constituents of the radical, secular opposition (workers, for example) of the basic tenets of reform. Radical, secular opposition elements are also countered by liberal oppositionists, who advocate more rapid reform, and by moderate Islamists, who support reform quietly. In sum, this element is not a major obstacle to reform and could, in fact, contribute to it by playing a role in sanctifying or even helping to negotiate new arrangements between capital and labor.

## **D2. Interests Supporting Reform**

**Private Enterprise.** Virtually the entirety of the non-rent-seeking private sector, including owners, managers, and workers, supports the reform process. Their support for reform, however, is difficult to mobilize in a political system that is less than fully democratic. Organizations of business persons, which were very active in the late 1970s and 1980s, have failed to live up to their early promise and the commitment and participation of their members have deteriorated. Not having a voice, despite some access to the executive branch, such members seek personal rather than group or policy solutions to problems. While broad-based democratization over time would enhance the influence of these actors, the role of private sector actors needs to be upgraded independently of democratization. Specifically, representatives of private enterprise need greater access to decision-making arenas.

**Large/Medium Farmers.** Although modern agricultural entrepreneurs operating large enterprises (typically on new lands) are more aware of and committed to economic reform than their more traditional counterparts (farming old lands), both medium and large landholders support reform. Paradoxically, it is the more traditional farmers who have greater political influence, for they are situated in the more densely populated Nile Valley and benefit from traditions of family influence in local politics. It was, for example, pressure applied by such landholders through the People's Assembly that ultimately led to the final form of the 1992 legislation that modified the rental provisions of the 1952 agrarian reform law. Modern agricultural entrepreneurs, generally lacking traditional political resources, have to resort to "modern" methods (e.g., business associations) in attempts to influence policies. Those methods are much less effective than traditional means of exerting influence.

**Top-level Public Sector Managers.** At the highest levels of the public sector, especially within holding companies, there is considerable support for privatization, both because it is

believed to offer better possibilities for production and profitability, and because top-level managers see personal opportunities arising as a result of privatization.

**Liberal Secular and Moderate Islamist Oppositions.** The former group are outspoken supporters of virtually all aspects of structural adjustment, but their influence is restricted to that of public opinion, which has no direct impact on policy formation. Moderate Islamists are strong critics of the state's role in the productive sectors of the economy, which they see as a legacy of Nasserism—an ideology and system they heartily dislike, possibly more for religious than economic reasons. For Islamists, however, it is more a question of dislike of the state and its economic role than it is support for structural adjustment. Moreover, since they seek to broaden their appeal they do not loudly proclaim their support for unpopular structural adjustment measures. Indeed, they assert that the Islamic economy is a "third way" between "capitalism" and "communism."

**Cabinet Ministers.** The sharp division that prevailed until the 1990s within the cabinet over support for reform measures has been replaced by a general consensus that reform is necessary. Disagreements now occur over the pace and sequencing of reform measures.

### **D3. Implications of the Array of Interests**

The pattern of support for and opposition to reform suggests that unless and until a major political realignment occurs, reform will proceed in an incremental, piecemeal fashion. Both government and opposition are divided by the issue of reform. Were Egypt to have an open political system in which actors could freely negotiated alliances, a fundamental realignment would likely occur. A coalition favoring more rapid reform might well emerge. It would include private sector entrepreneurs, high-ranking public sector managers, medium and large agricultural producers, secular and Islamist opposition elements, and most of the incumbent leadership of the National Democratic Party, including a majority of cabinet ministers. Another major coalition would oppose reform. At its core would be functionaries, attached to which would be private sector rent seekers and opposition radical secular political activists. The two major coalitions would compete for the support of public sector workers and small farmers. The outcome of this competition, hence control of the decision-making apparatus, would be determined primarily by the performance of the economy and of the political leadership of the competing coalitions.

But Egypt does not now have, and is unlikely to have in the near future, an open, competitive political system. The more the system does democratize, the more the resources of actors favoring reform will be revalued, with a corresponding devaluation of the resources of those opposing reform. The resources of pro-reformers are more useful in transparent, open political markets, while the resources of anti-reformers are more effective in closed, opaque political settings.

A gradual political opening would, therefore, provide additional political support for structural adjustment; but political, like economic reform, is likely to proceed slowly. In the

meantime, the enormous numbers of functionaries in the governmental service and public sector will brake reform. Functionaries play not only economic, but also important political roles. They provide a primary control mechanism through which the government maintains its hold on vital constituencies, including public sector workers, farmers, and the urban middle class, which is largely comprised of those functionaries. Until the government feels confident that it can maintain political control without relying heavily upon such functionaries, it is unlikely to adopt in wholesale fashion economic policies that dilute those functionaries' joint economic/political role.

The primary implication of this configuration of interests, therefore, is that it will retard the rate of structural adjustment unless and until a more open political system emerges and makes possible the formation of a new governing coalition more committed to reform.

#### **E. Egyptian Political and Administrative Context**

The political/administrative system consists of *four strata*. At the top is the *inner elite*, which decides all "high policy" matters and sets the parameters in which decisions on "low policy" are made. High policies are those that entail military, security, foreign, and broad economic issues, while low policies are those governing day-to-day matters. The inner elite intervenes in matters of low policy and its implementation when it perceives potential threats to security. The recent example of an intervention to block cotton exports is a case in point. USAID is not in a position to influence substantially the inner elite or high policy, although it may have some small impact, especially concerning intervention by the inner elite into low policy issues.

The next stratum down is comprised of the *cabinet*. Since Egypt has neither parliamentary government, nor effective political parties, the cabinet does not comprise government in the parliamentary sense. Instead, cabinet is comprised of a collection of individuals who are not bound together by common commitment or membership in a political party that represents identifiable group interests. Because the cabinet does not govern collectively, it is highly factionalized, lacking common purpose and honeycombed with small coalitions, some of which are transitory, others of which are determined by the institutional interests of the various ministries.

The process of selecting cabinet members is essentially one in which the inner elite accords to the prime minister the right to chose some ministers who administer low policy. How many ministers he can choose depends on his relative political strength. The incumbent prime minister has been able to select very few ministers, hence has few supporters in cabinet. Because virtually all ministers lack political power bases independent of the government itself, they rely on governmental instrumentalities to exercise and compete for influence over policy. Since most ministers have only their ministry to underpin their exercise of power, their primary orientation is to that ministry, rather than to the cabinet. The strength of a ministry thus determines the comparative strength of most ministers.

The average age of cabinet ministers was, until three recent appointments, well above 60. Cabinet turnover under Prime Minister Atif Sidqi has been the lowest since Egypt gained nominal independence in the wake of World War I. Thus it would be premature to speak of a "new guard" emerging in the cabinet that is committed to pushing the pace of reform. But recent appointments to the cabinet have been of talented, younger individuals who fully endorse the goals of economic reform and who have the capacities to make major contributions to that objective.

Ministries that have a potential interest in APRP include the Ministry of Agriculture and Land Reclamation (MALR), the Ministry of Public Enterprises (MPE), the Ministry of Supply and Home Trade (MoS), the Ministry of Economy and Foreign Trade (MoE), the Ministry of Public Works and Water Resources (MPWWR), the Ministry of Industry and Mineral Wealth (MoI), and the Ministry of International Cooperation (MIC). Of these ministries, the MALR is much the most powerful. Its sheer size (up to 450,000 employees), combined with its vital role in ensuring rural political quiescence, to say nothing of its involvement in the key area of food production, have for decades virtually guaranteed that the minister of agriculture is a significant actor in cabinet.

The present incumbent, like several of his predecessors, combines his ministerial role with a leadership role in the government political party, as well as a deputy premiership. His background of activity in the Arab Socialist Union under President Nasser suggests that he is an adept political operator within the political/administrative apparatus. Although not a politician in the democratic, parliamentary sense, he is virtually the only quasi-politician in the cabinet, for unlike his cabinet colleagues with other "low policy" portfolios, he interacts with the inner elite on policy issues and has far and away the largest base of personal supporters in and outside government.

None of the other relevant ministries provides a significant power base. The Ministry of Public Enterprises and the Ministry of Industry have divided a portfolio that formerly was united under the latter. The MPE is not, in fact, a ministry, but a title given to the minister of state, whose administrative apparatus is the Public Enterprise Office. That minister has visibility, but no real base from which to affect policy. When the present ambiguous triangular relationship between the public sector holding companies, the MPE and the MoI becomes clarified and solidified, it may be the case that the MPE assumes greater importance by virtue of more control and influence over those holding companies. In the meantime, however, the formerly powerful MoI has been weakened, while the MPE has yet to establish a clear role.

The MPWWR has always been subordinate in status and power to the MALR, although the former traditionally seeks to guard its autonomy from the latter. The MoS role has been declining in lock step with the reduction in consumer subsidies. That ministry has a reputation of harboring particularly corrupt, entrenched administrative and enforcement staffs, which in turn makes the minister vulnerable both to those staffs and to problems arising because of their activities. A reformer in that portfolio, which is the case at present, has a

double-edged sword to wield. While the ministry affords him considerable opportunities to impact on a wide range of food security issues, he has to be careful lest that ministry's staff be the cause of his own demise.

The minister of agriculture, both because of his portfolio and his unique political role within the cabinet, is thus by far the most influential minister within whose domain APRP falls. He has more capacity to push to achieve the goals outlined in APRP than other ministers. The question is, will he fully employ that capacity for that purpose?

There is little doubt that to date, the minister has been a vigorous champion of reform of the agricultural sector. He has steadfastly urged upon his cabinet colleagues, and in public fora of various sorts, the need to raise producer prices and thus stimulate agricultural production. He has supported other elements of the reform program in varying degrees. But support for higher prices for producers has long been an obligation of those occupying the agriculture portfolio. The adversarial relationship over commodity prices between the ministry of agriculture, on the one hand, and the ministries of supply and industry, on the other, has been a standard of cabinet politics since the Nasser era. In the early stages of reform, higher producer prices were central and the minister's support for their increase was vital to the success of the reform program.

Now, however, the reform process is on the verge of broadening and deepening. The objectives of APRP are more ambitious than those of APCP. It is not higher prices for commodities that are being sought—it is market prices. When shadow prices were far higher than those paid to Egyptian producers, it was easy for the MALR to advocate price rises. It would not be so easy to preside over falling prices, and justify them as the proper workings of the market mechanism. In that situation the minister might choose to support floor prices in excess of shadow prices. Other conflicts that will test the traditional advocacy role for farmers of the minister of agriculture are likely to arise, including conflict between private sector processors and exporters, on the one hand, and producers on the other.

In sum, the "easy" stage of reform has come to an end. Championing reform will be a more difficult, complex task for any minister of agriculture in the future. Championing reform may conflict with the traditional obligation of speaking on behalf of producers. The likely consequence of this growing complexity will be to neutralize somewhat the formerly key role played by the minister of agriculture. As reform becomes more complex, so will the politics surrounding it. The minister of agriculture will have to listen to more voices and respond to more conflicting demands. In this circumstance it would seem advisable when structuring APRP to share with other ministries some of the load that was carried by the minister of agriculture for APCP.

The *third stratum* is comprised of the ruling National Democratic Party and the Parliament. Both serve more as sounding boards for policies emanating from the inner elite and the cabinet than they do as policy makers or articulators of political demands. On occasions when the chairperson of the Agricultural Committee of the People's Assembly has

belonged to a faction opposed to that of the minister of agriculture, this chairperson has been able to exercise a partial veto over policy initiatives. At present, however, this is not the case and the committee is primarily a forum for the government to announce its policy and hear responses to it. Both the Party and the Parliament provide opportunities to the executive (and conceivably to those involved with APRP) to explain policy reforms to a broader audience. Since in the past, these organizations have played so small a role in formulating policy, including them in decision making in APRP would be innovative and possibly provocative.

The *fourth stratum* is comprised of institutional and organizational "interest groups." Because centralized decision-making systems do not foster voluntarism, most such groups are institutional in nature, rather than comprised of voluntary members. Examples of the former that have relevance to the agricultural sector are the Horticultural Exporters Association, the Federation of Industries, the General Confederation of Trade Unions, and the Export Development Bank. Examples of organizational interest groups include the Egyptian Businessmen's Association and the American-Egyptian Chamber of Commerce.

The comparative weakness of private voluntary associations and their non-governmental character are significant obstacles to including them in donor-supported reform programs. Such obstacles do not impede the establishment of formal relationships with relevant quasi-governmental institutions. They are capable of playing roles in reform programs, both within their institutional capacity and as linkages between decision makers and various constituencies. The Export Development Bank, for example, has an official responsibility for promoting exports through the provision of credit and market information to clients. It also plays a role in developing linkages between exporters, linkages which over time may contribute to the emergence of a more important "exporters lobby." Thus the inclusion of such institutions within donor-backed reform programs may simultaneously enhance their institutional capacities and stimulate the development of linkages to and within reform-oriented constituencies.

**Implications.** In designing APRP institutional arrangements, therefore, there are several major implications stemming from Egypt's political and administrative context, including the need to:

- Retain the support of the MALR and its minister;
- Diversify and deepen cabinet and subcabinet support for reform;
- Foster linkages between individual and institutional proponents of reform;
- Find an appropriate role for reform-supporting, quasi-governmental institutions;
- Pursue reform at the microeconomic level and on a case-by-case basis;
- Test the willingness of private sector influentials to become more involved.

#### **F. USAID Program Management Context**

Two major constraints affect USAID's ability to contribute more effectively to the reform process: financial and managerial capacity. These constraints are becoming more

severe absolutely and relative to the increasing magnitude of the tasks at hand. As the objectives of reform become more ambitious and complex, requirements for financial incentives and managerial effectiveness increase. Neither are likely to keep pace with the rising need for resources and management.

As the capacity to provide financial incentives diminishes in relation to the magnitude of change, the need for non-financial incentives necessarily increases. These incentives will have to consist primarily of the techniques of persuasion. While USAID can facilitate the reform process by providing carefully crafted, policy-relevant technical assistance, ultimately it must be actors within the system who assume primary responsibility for propagating reform if it is to succeed.

Implications of the constraint of limited managerial capacity are similar. Even assuming no decrease in available management resources, real capacity will decline as the complexity of the reform agenda increases. The clear implication is that a greater share of the management of policy reform programs has to be undertaken by individuals and organizations affected by those programs. Moreover, as programs become more complex and cut across more institutional boundaries, the need for enhanced communications among the leadership of these institutions increases. USAID does not have the resources to open and maintain such lines of communication. The development of intra-governmental linkages, therefore, needs to become a vital component and purpose of program design.

The standard USAID program management structure, with straight-line authority beginning at the level of a single ministry, passing through a small intra-ministerial program management committee, and terminating in a technical assistance unit, is not adequate for the management of complex, interrelated activities occurring in various institutional settings. This institutional structure typically requires of USAID management that it perform liaison and coordination tasks, usually with the informal assistance of the leadership of the counterpart institution. In addition to placing a heavy management load on USAID, this structure suffers from the range of defects characteristic of informal relationships within administrative settings. Not being institutionalized, they render extremely problematical and time-consuming monitoring and evaluation, innovation, and even day-to-day management. Moreover, informal interactions between autonomous institutions and actors do not facilitate the development of coherent, committed, and proactive project leadership. In fact, they are a substitute for such leadership.

A related deficiency of the straight-line, single-agency program model is that its narrow organizational base renders problematical the task of building a broader constituency to support the program's goals. Formally confined to one ministry, managed by a small group advised directly by expatriate and Egyptian technical assistants, such programs are self-contained—isolated from other institutions and actors whose support might provide a much more conducive environment within which the program could function.

Another aspect of the USAID management context is that of relations between USAID programs. At a minimum they need to be coordinated, while a maximal objective is to closely integrate them so that they achieve synergies with regard to the policy reform process. The APRP objective of privatizing key agriculturally-related industries, including textiles, rice milling, wheat milling, feed milling and fertilizer production, is an objective shared with other USAID programs. What should the division of roles and responsibilities be between the separate programs?

The most effective division of labor might be for APRP to seek to further privatization through a "bottom-up" approach, while SPR in EAP and privatization activities within TI/FI continue to operate using a "top-down" approach. Bottom-up refers to micro-level, incremental, industry-by-industry approaches to privatization. Top-down refers to the use of conditionality in an attempt to bring about macro policy changes that impact across all public sector operations.

APRP would be an ideal vehicle to test the effectiveness of various approaches to privatization of agriculturally-related industries, including contract servicing operations performed by the public for the private sector, leasing of facilities, sell-offs of subunits of public sector operations, etc. The Egyptian political economy provides few arenas in which negotiations can occur over important issues, including privatization. Centralization of authority under the Nasserist system undermined or destroyed most autonomous arenas, including those for negotiation of labor-management issues, for example. The absence of such arenas is an obstacle to privatization efforts, as is the general dearth of information about a wide variety of privatization activities that are already underway or under consideration by various parties.

APRP could seek to facilitate various modes of privatization and the negotiating processes that have to occur if they are to succeed—by providing appropriate technical and possibly financial resources. Those resources would serve the multiple purposes of:

- Assisting to develop arenas for negotiations;
- Enhancing institutional capacities of negotiators;
- Delivering technical assistance relevant to those negotiations;
- Providing incentives to facilitate agreements.

In sum, the APRP approach to privatization would be to push from the bottom of the relevant industries, seeking on several fronts at once ways to bring about incremental privatization or significant breakthroughs. That approach would be complemented by concentration on macro-policy changes urged by SPR and the TI constellation of projects.

**Implications.** The institutional framework of programs intended to achieve a broad range of objectives within more than one administrative jurisdiction needs to be designed to achieve formal coordination among administrative units within the program management structure. Moreover, that structure needs to facilitate the development of linkages to

supporting actors—be they institutional, organizational, or personal. These objectives of making the program management structure more inclusive and representative need to be realized without prejudicing the coherence and decision-making capacities of the program management. In sum, the institutional framework needs both coherence and leadership, on the one hand, and the capacity to broaden the base of support for, and possibly actual participation in the program, on the other.

#### **G. APCP Legacy**

APCP was designed and has functioned as a binary project. Its major purpose and component was to provide leverage to support policy dialogue and reform. The conduit through which resources have been provided to support that reform is PBDAC. The secondary objective of APCP has been to develop the institutional capacity of that institution while transforming it from an allocator of credit and supplier of agricultural inputs, into a self-financing, agricultural credit and savings bank.

APCP has succeeded in fulfilling both objectives to a substantial degree. Agricultural policy reform has occurred over a broad front. When it has lagged behind benchmark objectives, policy leverage made possible by APCP resources has contributed to reinvigorating the pace of reform. The market has become the primary determinant of agricultural commodity prices; private traders have entered those markets, as well as taking on the task of supplying inputs; and an increasing share of exports is being handled by the private sector.

With regard to the second objective, which is developing and transforming PBDAC, the record is somewhat more mixed. PBDAC has withdrawn from input markets, reduced its overall labor force, ceased subsidizing credit, and begun to provide a wider range of credit services. On the other hand, various weaknesses persist, including those of internal management, overstaffing, a declining capital position, and continuing inability to attract sufficient deposits to enable PBDAC to operate as a commercial agricultural credit bank. A pilot project intended to test the ability of PBDAC to develop into a full-service agricultural bank in three governorates is now underway.

Whether or not PBDAC has realized all of the intended objectives of APCP is a question of only marginal relevance to considerations of appropriate institutional structures for APRP. Even if PBDAC had fully succeeded under APCP in developing its capacities and transforming its role—which it did not—it would still be an open question as to whether it should play an analogous role in APRP.

The arguments in favor of PBDAC continuing its APCP role under APRP are that:

- It represents the status quo, hence working relationships have been established that could simply be continued;
- It provides a direct link to the MALR and its minister;

- It is a convenient tool of policy leverage because of its absorptive capacities.

These advantages are rendered less significant by the nature of APRP. It embodies ambitious objectives of structural adjustment, not only in the agricultural sector, but in sectors connected through forward and backward linkages from agriculture. PBDAC has no direct linkages with the sectors and specific institutions included in subproject components of APRP, nor any rationale for establishing such linkages. PBDAC was probably a suitable counterpart institution for the comparatively narrowly conceived APCP, for PBDAC occupied an important role within the agricultural production process. Its role has subsequently become less central, and is in any case largely irrelevant to the supply of inputs and (increasingly) to marketing, processing, and exporting of outputs.

Specific arguments in favor of PBDAC playing a key role in APRP are flawed. USAID's working relationships have been constructed with a comparatively limited number of actors, both within PBDAC itself and in the MALR. In some cases these relationships have not been mutually productive, or predate the inclusion of PBDAC into APCP. There are other mechanisms through which the linkages to MALR and its minister can be retained. Finally, absorptive capacity is not an issue, for there is a shortage of financial resources to achieve stated objectives and a plethora of suitable institutions to which resources could be made available.

In conclusion, PBDAC offers very little to APRP because of the broad, multi-sector objectives it is designed to achieve. It is not "networked" within those sectors. As a base for a project management team it would be considered weak and largely irrelevant by powerful actors in other sectors. Arrangements with PBDAC in the past suggest that its managerial capacities are such that dynamic, innovative leadership and project administration would be unlikely. While PBDAC may be a suitable target for a follow-on institutional strengthening activity, it is not an institution to which APRP should be structurally linked.

#### **H. Limited Resources -- Implications for Institutional Arrangements**

APCP was intended to fulfill two objectives: develop and transform PBDAC; and use conditionality to influence the outcome of policy dialogue. Accordingly, APCP had only a rudimentary program organization, the primary task of which was to channel funds in support of benchmark-meeting initiatives and to monitor and evaluate those initiatives. Given its limited organizational resources, APCP did not have the institutional capacity to pursue a more variegated strategy.

APRP, on the other hand, can be provided with the organizational capacity to operate over a broader front, including more than one ministry, and to implement a larger range of activities. Those activities can take either project form, or provide support for benchmark-meeting policy initiatives. At this stage it would appear to be highly desirable to have that flexibility. It is difficult to predict what structural adjustments will be made, and when and

how they will take place. APRP needs to have the capacity to monitor, evaluate, and respond to a changing policy environment.

APRP's financial resources are insufficient for conditionality to be used effectively over the range of the program's objectives. Moreover, even if those resources are to be targeted on specific bottlenecks, they will still have only a limited impact. ACP, for example, allocated \$75 million for early retirements of PBDAC staff, an incentive that produced at the very most 5,000 such retirements. Those retirements did not transform the functioning or balance sheets of PBDAC. The textile industry alone has almost a quarter of a million employees distributed across three holding companies and more than 30 separate firms.

Based on the PBDAC experience, \$200 million expended on early retirements would produce less than 15,000 retirements, thus reducing the labor force in the public sector textile industry by less than 7 percent. Overstaffing is currently estimated to be many times that amount. The *Assessment of Potential for Liberalization and Privatization of the Egypt Cotton Textile Sector*, submitted in 1993, estimated that a successful liberalization and privatization program would result in 50,000 to 100,000 employees being laid off or redeployed. In short, using APRP resources to support across the board policy initiatives of this sort, would rapidly expend the program's resources and probably have little impact even on the targeted sector, to say nothing of APRP's broader objectives.

An alternative strategy is to employ APRP's resources to encourage and support a broader range of smaller activities, many of which would take project form. This approach appears preferable. Continuing political and economic obstacles to further structural adjustment suggest that change will be incremental and piecemeal. Significant advances in one area may be offset by stagnation or even backsliding in others. The previously employed metaphor of "guerilla war" seems apposite. APRP's resources need to be structured in such a way as better to engage in this structural adjustment "guerrilla war," working on small targets over a broad front. Such an approach would complement other components of USAID's program. It would also permit testing of different approaches.

Finally, a broader array of activities might also serve the purpose of engaging more institutions and affected interests in the process of structural adjustment, thereby enhancing its prospects for success. That process ultimately will depend on countless negotiations, bargains, and compromises over virtually the whole range of the political economy. If USAID activities help to expedite this negotiating process, rather than to be conditional on the completion of that process, they are more likely to hasten the pace of reform.

These considerations suggest that APRP be endowed with an organizational capacity that will permit it to operate effectively at the micro-economic level, rather than just at the macro-policy level. It should be able to allocate comparatively small amounts of funds to achieve carefully defined results. Since privatization in particular is a complex, multi-faceted process, it makes sense to structure APRP in such a way as to enable it to experiment with

alternative means of attaining that objective. Since the macro-policy approach has thus far produced negligible results, the time appears ripe to attempt another strategy. To be able to do so, APRP will require the capacity to monitor the policy process, participate in the design of appropriate activities, and monitor and evaluate their consequences.

While a rigid plan for the allocation of funds between objectives would not be appropriate, some rough rules of thumb regarding allocations might at least provide an indication of potential funds available to meet specific program objectives. The program objectives are development of private-sector marketing capacities, privatization of state-owned enterprises, provision of food security to the needy, rationalization of public investment with accompanying reform of key public institutions, and enhancement of agricultural sustainability through cost recovery and environmental improvements. Assuming an equal allocation of resources to each of these five objectives, and an overall program budget of \$200 million (excluding technical assistance), each objective would receive \$40 million. This is not a large sum. The privatization objective targets five separate subsectors—textiles, rice, wheat and feed milling, and fertilizer production. Equal allocation would result in \$8 million for each subsector. Such funds would be sufficient for pilot projects, technical support for privatization initiatives, and the like, but not for policy leverage.

In sum, non-financial incentives are going to have to play an important role if APRP objectives are to be realized. With this constraint the watchword should be "think small, not big." Large sums will not be available to be invested in public sector and governmental institutions, as they have in the past. No institution, even if thoroughly reformed, would remove the myriad of bottlenecks that impact negatively on agricultural production. Smaller sums that serve to stimulate private-sector interest and investment, that facilitate new relationships between the private and public sectors, and that encourage reorganizations of public institutions, will require for their allocation effective management and oversight capacities. If APRP is to succeed, it will have to possess such capacities.

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## SECTION II

### OBJECTIVES FOR THE APRP INSTITUTIONAL STRUCTURE

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Given the economic, political, and institutional contexts discussed in Section I, the following objectives are central to the design of the APRP institutional structure:

- To intensify, broaden, and deepen policy dialogue
- To develop management capacity within the program
- To formalize program management procedures
- To insulate program management from a host institution
- To retain support of MALR
- To enlist support from other key ministries
- To enlist support from quasi-governmental institutions
- To give voice to affected interests
- To reduce the role of public sector and governmental functionaries

Each objective is discussed further below.

#### A. Intensify, Broaden, and Deepen Policy Dialogue

The perceptual gap between the Egyptian and American views of the amount and pace of economic reform suggests that policy dialogue between the two sides should be *intensified*. Both sides need to come to a better understanding of the other's position. They can do so most effectively by interacting extensively and intensively to determine precisely where views overlap, and where they diverge. APRP provides an opportunity for an ongoing, structured dialogue that can focus on specific reform issues. Such a dialogue would facilitate the objectives of both APRP and policy reform more generally.

The shift from stabilization to structural adjustment as the central focus of the GOE's economic reform strategy necessitates a *broadened* policy dialogue. Structural adjustment will involve directly a larger array of institutional actors than did stabilization measures, which were concentrated at the macro policy level. Thus dialogue between the GOE and USAID will need to include representatives of more institutions within the GOE, for more will inevitably be affected by and have power to influence reform as it moves from the macro to the micro-economic level.

Similarly, the policy dialogue needs to be *deepened* within governmental institutions that are participating in the reform program. Deepening refers to moving down the organizational hierarchy to those units directly engaged in implementing reform measures. Previously reform was of broad, macro-economic policies. Under APRP reforms will cluster at the micro end of the continuum, where a greater number of administrative line—as opposed to staff agencies—will be involved.

## **B. Develop Management Capacity within the Program**

APRP is an ambitious and complex imitative. Its successful implementation will require management capacity that could exceed what USAID is able to provide. APRP should, therefore, be endowed with an internal management capacity that does not depend heavily on external management inputs on either an ad hoc or structured basis.

## **C. Formalize Program Management Procedures**

In many previous USAID programs and projects, informal procedures have been utilized to coordinate between various institutions and interests. Those procedures were manageable and appropriate when the relative complexity of programs and projects was limited. With regard to APRP, however, its complexity and implied crossing of numerous administrative jurisdictions requires that more formal procedures be established. In addition to facilitating mundane management tasks, such as bringing issues to the point of decision, recording those decisions, and following up on their implementation, a formalized management structure should encourage greater overall responsibility among project personnel at all levels. It should also serve to define more carefully roles and responsibilities and thereby devolve more power down to levels where information is more available. Moreover, a formalized structure can provide access to nongovernmental actors, whose voice cannot be heard if management procedures are conducted informally.

## **D. Insulate Program Management from a Host Institution**

A central task of APRP management will be to coordinate activities across several institutional jurisdictions. To accomplish that task, APRP should not be "housed" within a specific sub-cabinet level institution, as was the case with APCP. Were that to be done, APRP would be seen by other actors to be the vehicle of that particular institution. In addition, APRP management would become enmeshed within issues internal to that particular institution, hence draining away its capacities to act over a broader front. A loose attachment to a host ministry, combined with a formalized, internal management capacity, should suffice to insulate management adequately.

## **E. Retain Support of MALR**

The APRP institutional structure should ensure that the support of the MALR and its minister be effectively retained, as suggested by the central roles of the MALR and its minister in cabinet, in government more generally, and with regard to most sectors in which APRP has policy objectives. In addition, effective relationships have already been established with MALR and its minister as a result of APCP and other USAID agricultural program initiatives.

#### **F. Enlist Support from Other Key Ministries**

Broadening of the reform agenda, as called for in APRP, requires cultivating the support of ministries other than the MALR. APRP activities are most likely to fall within the jurisdictions of the MoS and MPE, while some portion of some activities may also require the cooperation of the ministries of economy, industry, and public works/water resources.

#### **G. Enlist Support from Quasi-Governmental Institutions**

Since the original opening of the Egyptian political economy in 1974, a host of quasi-governmental institutions have emerged. Such institutions typically fall somewhere between the public and private sectors. As structural adjustment continues, many of these institutions will be converted from quasi-governmental into true private sector bodies. In most cases their management/directors are already supportive of the private sector. These institutions can provide resources to support the fulfillment of APRP objectives in two ways. First, they have institutional capacities that could be utilized. Second, they are actors in the administrative/political structure whose voice in support of APRP objectives would be helpful.

#### **H. Give Voice to Affected Interests**

As the number and power of interests potentially affected by reform increases, the need for these interests to have a voice in decision making increases. Existing political and administrative structures offer few possibilities for participation even by important constituencies. Since most decision making is done carried out within representative institutions but within the governmental bureaucracy, the private sector—among other non-governmental interests—has little voice in these decisions. In many cases these interests are not so much hostile to reform, but suspicious of it. Their suspicion is fed when they are excluded from the decision-making process. APRP can provide fora in which key interests affected by reform can voice their concerns.

#### **I. Reduce the Role of Public Sector and Governmental Functionaries**

Functionaries have played a major role in slowing, diverting, and even blocking reforms that have widespread support within decision-making circles and the public at large. If APRP is to help facilitate reform within the agricultural sector, it should reduce the access of such functionaries, while increasing the access of other groups that will benefit from reform or reduce their opposition to it as a result of being provided access.

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## SECTION III ALTERNATIVE ORGANIZATIONAL DESIGNS

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Three alternative organizational designs are proposed for APRP in an attempt to achieve the institutional objectives described in Section II. The first two designs represent opposite ends of a continuum from simple to complex. A modification of the second design is also presented to address concerns about the efficiency of inter- and intra-ministerial coordination.

### A. Modified "Traditional" Structure

Figure 2 shows a modified "traditional" USAID program structure, such as that used for APCP. The central characteristic of this structure is straight-line, top-down management within a single ministry. The APCP structure has been somewhat modified by adding a special unit that would be responsible not only for monitoring and verification, as is the case with APCP, but also for providing technical assistance. The strengths of this configuration are as follows:

- It ties the APRP to a strong ministry;
- It would avoid potentially immobilizing jurisdictional disputes within the program that otherwise might arise at the ministerial or subministerial level;
- It represents the status quo, hence it is understood by all relevant actors and would be easy to execute contractually.

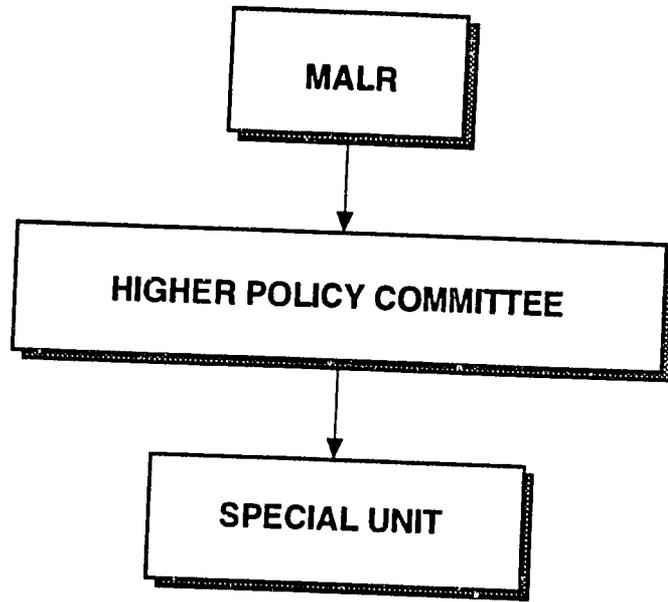
Its weaknesses are:

- It provides no institutional linkages to other ministries;
- It does not allow for access by other governmental or quasi-governmental institutions, or by affected interests;
- It relies on a small policy committee comprised of members who have many other responsibilities and who necessarily will have to depend on a rigid, top-down management system.

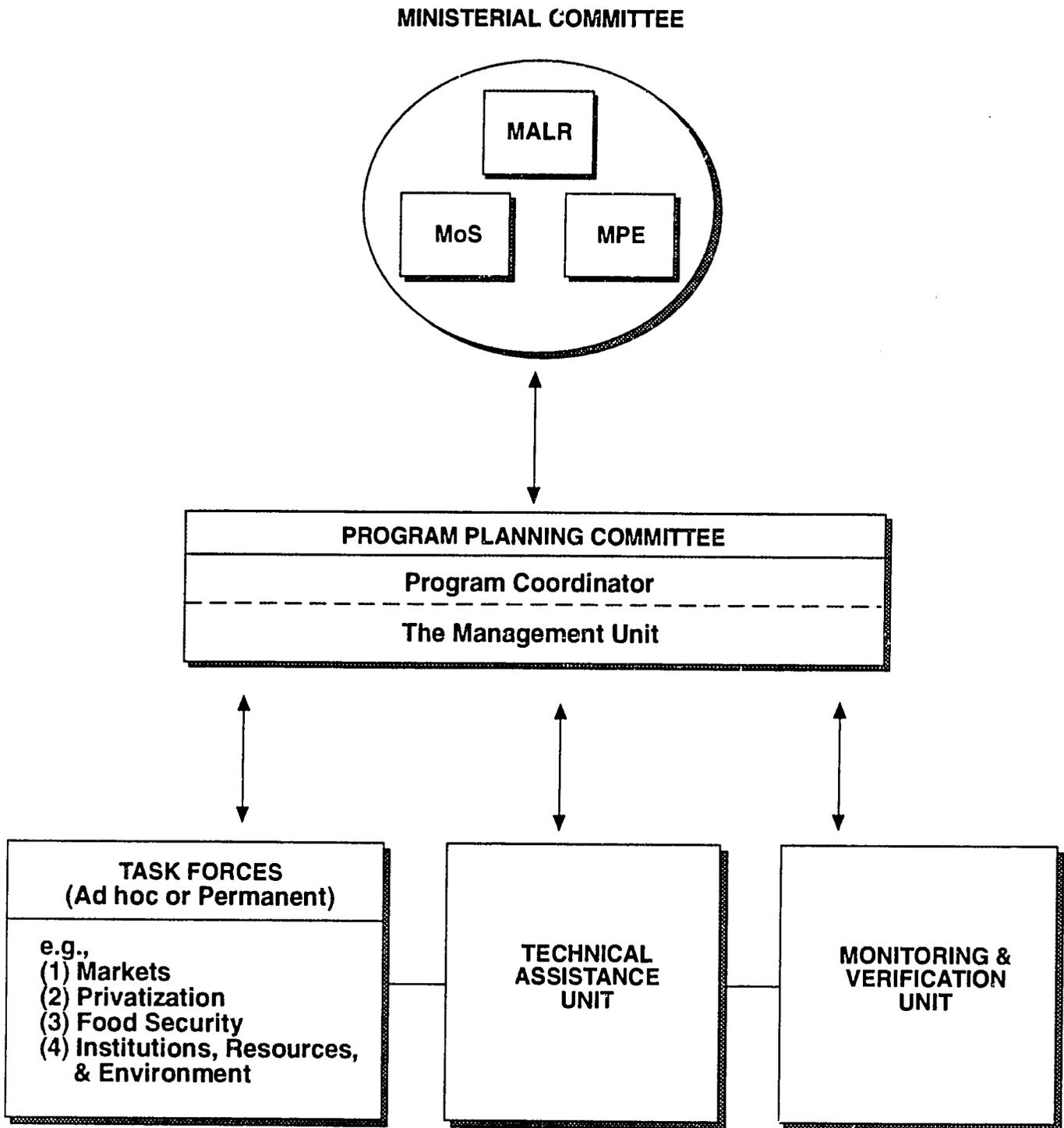
### B. Alternative Model I

Figure 3 shows an alternative model with three organizational levels: a Ministerial Committee to provide overall policy guidance and interministerial coordination; a Program Planning Committee with management and operational responsibility for APRP; and a third

**FIGURE 2. MODIFIED "TRADITIONAL" STRUCTURE**



**FIGURE 3. ALTERNATIVE MODEL I**



level consisting of various task forces, a Technical Assistance Unit, and a Monitoring and Verification Unit. Each level is described below, including (1) its organizational composition or staffing; (2) organizational purpose or rationale; (3) roles and responsibilities; and (4) operational procedures. Elements 1, 3, and 4 are also summarized in side bars for quick review.

### **B1. The Ministerial Committee**

**Composition.** As shown in Figure 3, instead of placing APRP under the direction of MALR, the program would be constituted under the ministries of agriculture, supply, and public enterprise, the three ministries most concerned with APRP objectives. Relations among the ministries and with APRP would be in the form of a Ministerial Committee, and separate MOUs would be signed with each ministry. The committee would be chaired by the minister of agriculture.

**Rationale.** The rationale for forming a committee that includes two ministries in addition to MALR is to overcome weaknesses in the "traditional" model, reduce top-down management, and give other ministries a sense of "ownership" of APRP. This first alternative model, therefore, provides a mechanism for interministerial liaison, and an arena for the discussion of broad GOE policy and its impact on program initiatives. These objectives are in line with those discussed in Section II.

**Roles and Responsibilities.** The Ministerial Committee would be responsible for facilitating inter- and intra-ministerial activities under APRP, and providing broad GOE policy guidance to the Program Planning Committee (see below). The Ministerial Committee would not play a significant role in program planning and management, which would be performed by the Program Planning Committee (PPC), at the second organizational level.

**Procedures.** The Ministerial Committee would meet quarterly, with more informal or ad hoc meetings as needed.

#### **MINISTERIAL COMMITTEE**

**Composition:** Chaired by the minister of agriculture, the committee would also include the ministers of supply and public enterprise. These three ministries (MALR, MoS, and MPE) are the most concerned with APRP objectives and initiatives.

**Responsibilities:** Providing relevant GOE policy guidance to the Program Planning Committee, and facilitating interministerial communication and coordination for APRP initiatives.

**Procedures:** Quarterly meetings, with more frequent informal or ad hoc meetings as required.

## **B2. Program Planning Committee (PPC)**

**Composition.** The PPC would be comprised of full members (with voting rights) representing the MALR, MoS, and MPE; the program coordinator of the PPC; and ex-officio members (without voting rights) representing USAID and the ministries of economy and foreign trade, public works and water resources, industry and mineral wealth. Each ministry would have one representative, with the exception of the MALR, which would have two.

The PPC would be chaired by a full-time program coordinator. It would also include a Management Unit for operational, administrative, and financial tasks associated with APRP, headed by a Management Unit director, and also including a deputy director, financial adviser, and support staff (e.g., secretaries, translators).

**Rationale.** The PPC would be constituted to achieve the following objectives, in line with the discussion in Section II:

- Provide liaison between ministries;
- Provide an arena for discussion of program issues;
- Encourage systemic thinking and approaches to policy and planning for APRP;
- Engage more personnel in program decision making;
- Develop internal program management capacity;
- Formalize procedures of program management;
- Separate program management from the provision of technical assistance.

### **PROGRAM PLANNING COMMITTEE**

**Composition:** Chaired by the program coordinator, with representatives (with full voting rights) from MALR, MoS, and MPE. Ex-officio members (without voting rights) from USAID and the ministries of economy and foreign trade, public works and water resources, industry and mineral wealth. The MALR would have two representatives, and all other ministries, one.

**Responsibilities:** Policy-making for APRP initiatives, and planning, programming, and program management. Liaison between ministerial and operational levels of the program.

**Procedures:** Meetings in formal sessions at least once a month. Review of program concept papers and referral of concepts to the task forces for development into project papers.

**Roles and Responsibilities of the PPC.** The PPC would have a policy-making role with respect to APRP initiatives, consistent with the broad policy guidelines laid down by the Ministerial Committee and the policy objectives of APRP. The PPC also would be the chief planning, programming, and program management unit for APRP. It would decide on overall program management strategies; determine which activities would receive support pursuant to achieving the benchmarks agreed upon between USAID and the GOE for APRP; and establish

appropriate timing and resource allocation guidelines for these activities. In the process, the PPC would serve as the primary liaison between the ministries at the GOE policy level, and the task forces, Technical Assistance Unit, and Monitoring and Verification Unit at the operational level.

#### **PROGRAM COORDINATOR**

**Role:** Facilitates communications within and between the ministries and other program elements.  
**Responsibilities:** Provides overall leadership for the program and presides over meetings of the PPC, acts as primary contact with USAID, appoints members to the task force, and is the signatory for APRP official documents and communications.  
**Qualifications:** Experience at the undersecretary or ministerial level. Extensive experience with the MALR, and background of interministerial activities with the MoS, MPE, and other relevant ministries.

#### **DIRECTOR, MANAGEMENT UNIT**

**Role:** Serves as principal administrator of APRP and manages the flow of operations within the PPC, and between the PPC and other program entities and elements.  
**Responsibilities:** Manages communications within and between ministries and other program entities. Records and follows up on decisions/directives of the interministerial committee, PPC, and task forces. Interacts with USAID program management and contract personnel. Establishes a program library/database in which all records of PPC activities are kept.  
**Qualifications:** Managerial background, including private sector experience, preferably in both Egypt and the United States. Bilingual English and Arabic.

#### **DEPUTY DIRECTOR, MANAGEMENT UNIT**

**Role:** Provides administrative support to task forces and facilitates interactions between task forces and the Special Unit.  
**Responsibilities:** Assists in the calling and holding of meetings, records and reports task force proceedings to the PPC, and advises task force personnel on APRP and USAID procedures and requirements.  
**Qualifications:** Managerial/administrative background and bilingual English and Arabic.

#### **FINANCIAL ADVISER**

**Role:** Overall responsibility for financial management of APRP.  
**Responsibilities:** Records and monitors the flow of funds within APRP and between APRP and external participants, including ministries. Works in cooperation with USAID personnel in preparing financial documentation related to agreements with relevant parties.  
**Qualifications:** Experience working with USAID financial regulations and procedures.

**Roles and Responsibilities of PPC Staff.** The PPC *program coordinator* would have primary responsibility for developing and maintaining a sense of common purpose among those participating in APRP. To that end the coordinator would be expected to communicate frequently with as many concerned parties as possible, and to provide overall coordination of

the PPC's planning, programming, and program management functions. This individual—to be employed on a full-time basis—should have long experience in Egypt's agricultural sector, at the undersecretary or ministerial level, and enjoy widespread respect among colleagues.

The *director of the Management Unit* would have a managerial background, including private-sector experience, preferably in both Egypt and the United States, and be bilingual in Arabic and English. His/her primary locus of responsibility would be to manage the day-to-day operations of the PPC, including program-wide communications of an operational nature.

The *deputy director of the Management Unit* would work under the supervision of the director. The deputy director's primary locus of responsibility would be the task forces (see below), where his/her role would be analogous to that of the program coordinator of the PPC. (S)he would attend meetings of the task forces, maintain records of decisions and recommendations, and, under the guidance of the director of the Management Unit, would be responsible for administrative relationships among the task forces, the Technical Assistance Unit, and the Monitoring and Verification Unit. The deputy director would have a managerial/administrative background and would be bilingual.

The *financial adviser* to the Management Unit would have overall responsibility for financial management of APRP. This management would consist of recording and monitoring the flow of funds within APRP and between APRP and external participants, including ministries. The financial adviser would work in cooperation with USAID personnel in preparing financial documentation related to agreements with relevant parties.

The USAID relationship to this proposed organizational structure for APRP requires a combination of formal and informal linkages. Formal linkages would include an ex-officio member of the PPC who attends all meetings of that body to provide appropriate input and to serve as a direct channel of communication to the Agency. USAID should also have ex-officio membership on all task forces, where the USAID member would play a role analogous to that of his colleague on the PPC. Finally, USAID will be involved in all contractual matters related to the functioning of the Technical Assistance and Monitoring and Verification Units. In addition to these formal relationships, USAID will develop and maintain informal relationships with individuals and institutions involved in APRP.

**Procedures.** The PPC would meet in formal session at least once a month. Its business would be conducted according to normal rules of order, including the requirement for a majority vote for all formal motions. Facilities for the PPC, including office space for the program coordinator and management unit, and an appropriate meeting room for the Committee itself, would be in a single location to promote frequent interaction among committee members.

### B3. Task Forces

**Composition.** Together with the Technical Assistance and Monitoring and Verification Units (see below) the task forces constitute the third level of the alternative organizational model. The task forces could either be constituted on a permanent basis, or formed ad hoc as needs arise. If task forces are to be permanent bodies—established at the outset of APRP and for the life of the program—they should be formed around the central objectives of the program itself. These objectives are the further development of free *markets* for the agricultural and related sectors; *privatization* of enterprises providing inputs to agriculture or marketing or processing agricultural outputs; providing *food security* in a carefully targeted, non-wasteful fashion to the needy; and developing the capacity of *institutions* to manage land and water resources.

Each of these task forces would be headed by a chairperson who would also be a full member of the PPC. A logical distribution of assignments would be that the two representatives of the MALR would chair the task forces on markets and institutions; the representative of the MoS would chair the task force on food security; and the representative of the MPE would chair the task force on privatization.

The membership of these task forces would be representative of the institutions involved in and the interests affected by policy reform. Members would be nominated by the PPC in consultation with USAID. Total membership would not exceed seven (7) in the case of any task force. In each task force there would be representation from the private sector.

#### Task Forces

**Composition:** If the task forces are to be formed on a permanent basis, they would center on free markets, privatization, food security, and institutional capacity for land and water resource management. They would each be headed by a chairperson. Membership would be representative of institutions involved in policy reforms, including relevant ministries, other institutions, and private sector representatives.

**Responsibilities:** Developing concepts into fully elaborated project proposals and providing policy alternatives/guidelines for analysis by the Technical Assistance Unit.

**Procedures:** Task forces would meet regularly, under the coordination and direction of the deputy director of the PPC Management Unit. They would liaise regularly with the Technical Assistance Unit.

If task forces are to be ad hoc rather than permanent, they would be formed by the PPC from time to time and charged with a specific function. Their composition would be guided by the same principles that apply to the permanent task forces, namely, that task forces need to be closely linked to key governmental instrumentalities; they need to include representation of interests that will be affected by proposed APRP activities; and they need to have the capacity to utilize technical assistance effectively. While ad hoc task forces would

provide flexibility to the PPC and APRP, flexibility would be obtained by sacrificing the institutionalized capacities that permanent task forces represent.

**Rationale.** Task forces, whether permanent or ad hoc, could play an important role in achieving APRP objectives. With regard to privatization, for example, a task force provides an ideal context for addressing thorny issues surrounding labor redeployment. Privatization agreements are unlikely to be reached, and if reached would probably not be effective, unless agreements are entered into freely by private sector purchasers and employees of privatizing public sector units. The government has neither the will nor the power to declare privatization unilaterally. Its more appropriate role, given its limitation of resources, is to facilitate a myriad of privatization measures negotiated between the public and private sector, with labor included in the negotiations. The government also needs to act as referee, ensuring that public interests are served by specific privatization agreements.

Presently the privatization process is impeded by the lack of fora for negotiations between private investors and public sector workers and managers. Labor unions have little capacity at the factory or company level to engage in collective bargaining. To the extent such bargaining has existed over the past forty years, it has been concentrated at the national level and undertaken by the leadership of the General Confederation of Trade Unions, rather than union leaders at lower levels. As a result, public sector labor forces have been poorly equipped to bargain. Suspicious of a process they do not fully understand, they have resisted privatization in general. An APRP privatization task force, drawing on technical assistance from the TA Unit, could play a role in reducing resistance to privatization by helping to create venues for negotiations with concerned parties and upgrading those parties' bargaining capacities.

**Roles and Responsibilities.** Task forces would be responsible for developing concepts into the equivalent of fully elaborated project proposals. Task forces would be assisted in this work by the Technical Assistance Unit. The task force mechanism would provide a broad array of expertise and interests in the formulation of specific guidelines, objectives and procedures for program activities. By interacting with the Technical Assistance Unit, task forces would draw affected interests into the processes of project design, implementation, and monitoring and evaluation. Task force members would provide the Technical Assistance Unit with policy perspectives on key issues, and in return, would receive technical input from staff in the Technical Assistance Unit. In sum, the purpose of the task forces would be to increase the level of interaction between institutional decision makers, affected interests, and technical experts, and in so doing, facilitate the emergence of consensus on program goals and enhance the quality of project activities.

**Procedures.** Task forces would meet on a regular basis, under the overall coordination and direction of the deputy director of the PPC Management Unit. For a full description of the operations of these entities, see item C, Flow of Work, below.

#### **B4. Technical Assistance Unit**

**Composition.** The Technical Assistance Unit also functions at the third level of the organizational model depicted in Figure 3. The unit would be managed by a director, who would be responsible for providing policy-relevant assistance, would be familiar with the Egyptian policy context, and would have proven capacities to undertake and supervise political economy analysis of key agricultural and agriculturally related issues. The unit would also have a small staff of three to four technical personnel, and secretarial/administrative support. Permanent TA staff would be supplemented by short-term technical expertise.

**Rationale.** The purpose of this unit would be to provide technical assistance to facilitate the making of public policy; thus, the unit would have to monitor policy debates closely and ensure that the assistance it provides focuses on viable policy alternatives. This requirement dictates a pro-active approach by the Technical Assistance Unit, which will need to continually volunteer suggestions to task forces and the PPC as to the kind of technical assistance that will facilitate the policy process.

**Roles and Responsibilities.** The primary responsibilities of the Technical Assistance Unit would be to provide policy-relevant technical assistance in response to requests from the task forces and the PPC. Because of the broad and diverse objectives of APRP, a wide range of technical assistance will be required. As noted, the number of permanent personnel in the technical assistant unit should remain small, however, and their function would be to organize and supplement the delivery of short-term technical assistance rather than to serve in direct technical assistance capacities themselves.

**Procedures.** The Technical Assistance Unit would undertake technical evaluations at the request of the PPC and the task forces. The director of the Technical Assistance Unit, or his or her representative, would regularly attend task force meetings. The Technical Assistance Unit will also meet on a regular basis with staff of the Monitoring and Verification Unit. For a full description of the operations of this unit, see item C, Flow of Work, below.

#### **TECHNICAL ASSISTANCE UNIT**

**Composition:** The Technical Assistance Unit would be composed of a director, a small staff of three to four, and administrative support.

**Responsibilities:** The TAU will provide policy-relevant technical input in response to requests from the task forces and the PPC. It will also work closely with the Monitoring and Verification Unit to incorporate monitoring/verification benchmarks into project design.

**Procedures:** The Technical Assistance Unit will provide policy-relevant technical assistance in response to requests from the task forces and the PPC.

## **B5. Monitoring and Verification Unit**

**Composition.** The Monitoring and Verification Unit will have roughly the same composition as the Technical Assistance Unit, including a director, a small, full-time staff of two to three, and administrative and secretarial support.

**Rationale.** This unit is particularly important because of the contractual need to tie specific benchmarks to the release of funding *tranches*. Thus, the work of the Monitoring and Verification unit will occur in conjunction with the Technical Assistance Unit and the PPC at the earliest stages of program design, as well as throughout the life of project.

**Roles and Responsibilities.** This unit will work in close cooperation with the Technical Assistance Unit to incorporate monitoring/verification parameters into the project design. Because APRP may include a wider range of types of benchmarks, including qualitative ones, than did APCP, the director of monitoring and verification will need to have a thorough understanding of policy processes within Egypt and be engaged in all stages of project development.

**Procedures.** The Monitoring and Verification Unit would work closely with the Technical Assistance Unit in the preparation of project designs, and will also report to the PPC via the Management Unit, in its monitoring capacity. See further, Subsection C.

### **MONITORING AND VERIFICATION UNIT**

**Composition:** A unit director, a small professional staff of two to three, and support staff.

**Responsibilities:** Provides input to the project design process by providing benchmarks for project performance, and monitors performance in conjunction with the release of funding *tranches*.

**Procedures.** Works closely with the Technical Assistance Unit and the task forces in providing input into project design, and reports to the Management Unit of the PPC in conjunction with its monitoring and verification role.

## **B6. Analysis of Alternative Model I**

The alternative model I overcomes weaknesses in the modified "traditional" structure:

- It provides linkages to other ministries;
- It provides administrative support to the central policy unit of the program;
- It provides access to APRP for other governmental and quasi-governmental institutions, as well as affected interests.

It could be argued, however, that the alternative structure introduces potential weaknesses of its own. The first difficulty results from having three ministries share responsibility for the project. While the MALR would be the driving force behind APRP, would have the greatest representation on the PPC (probably including the role of program coordinator), and already enjoys close working relations with the MoS and MPE through high-level personnel, including these last two ministries may pose problems.

One difficulty is that separate MOUs would have to be signed with each ministry—a lengthy process in itself. A second problem might arise over misunderstandings between the ministries and even the ministers themselves, in part because of possible ambiguities in the relationship between the Ministerial Committee and the PPC. Finally, the MALR and its leadership, which have had sole responsibility for previous USAID agricultural programs, might not receive this proposed change enthusiastically. As a result the MALR might provide less support for APRP than it would were it entirely under that ministry's jurisdiction.

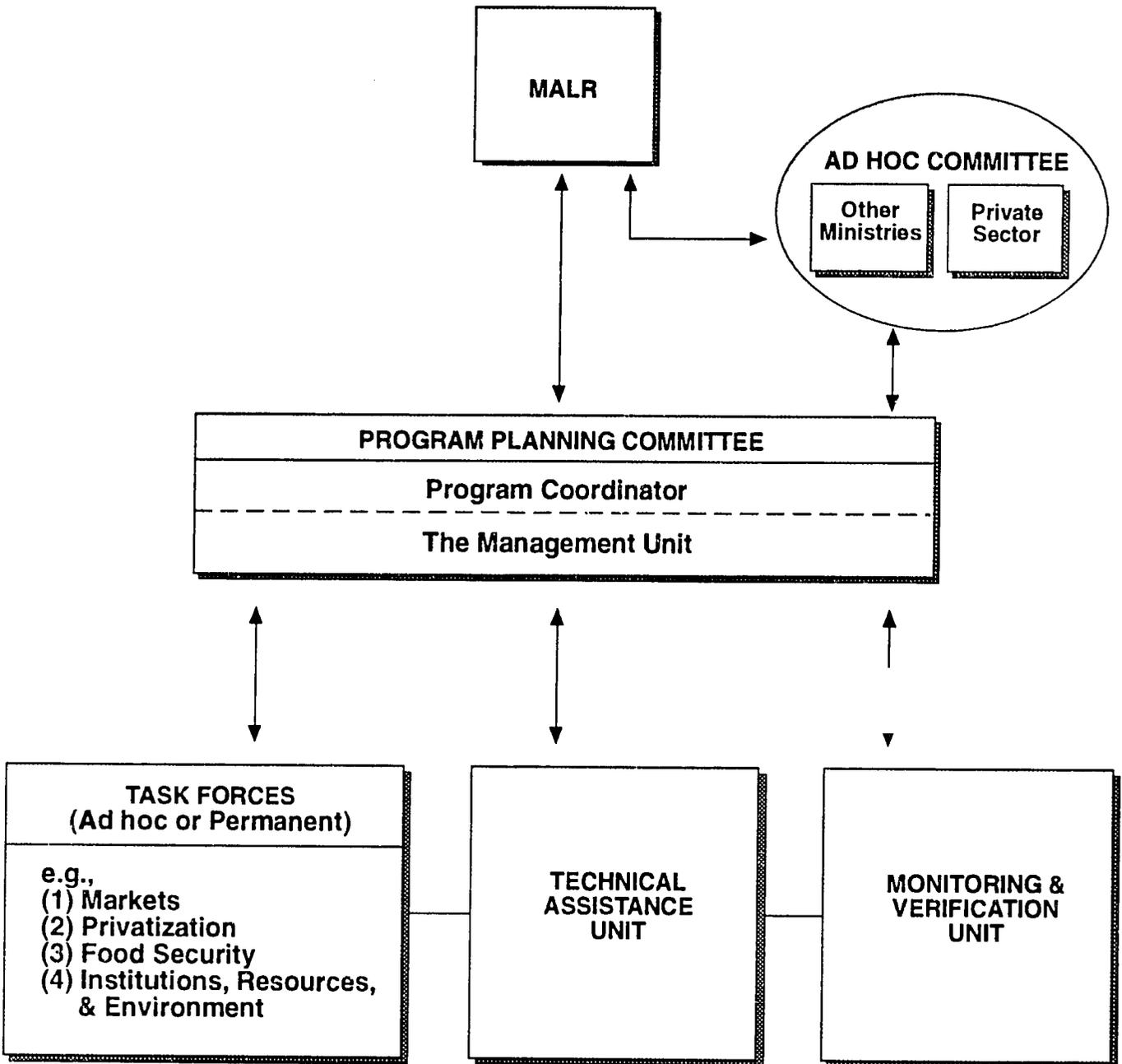
The second area in which difficulties might arise results from the relative complexity of this proposed organizational structure. It diffuses authority more widely than did the APCP management structure; it calls for more complex interactions between management personnel; and it provides for the incorporation into the program (through the task forces) of non-governmental personnel. In sum, it is novel and ambitious.

A final problem arises as a result of the potentially dualistic nature of APRP itself. APRP may consist of both independent activities of a project nature, as well as autonomous initiatives by ministries, which would in turn be rewarded for those initiatives by allocations of funds. A structure suitable for project design, management, and integration is probably too cumbersome for straightforward allocation of funds in support of ministerial initiatives to meet benchmarks. Solutions to these possible problems are sought through a second alternative organizational model, as described below.

### **C. Alternative Model II**

The first problem mentioned might be resolved by reducing the salience of the role of the MoS and MPE. Figure 4 depicts such an arrangement as Alternative Model II. The MALR would be the sole ministry with which an MOU would be signed. Other ministries would be incorporated into the APRP organizational structure through four mechanisms. First, an ad hoc interministerial committee, which would be convened on the initiative of the ministry of agriculture, would include ministries on an as-needed basis. It would also include at least one representative of the private sector. Second, informal interactions between ministers would occur. Third, Memoranda of Implementation would be signed with specific ministries when and if activities were to be conducted within their sphere of competence. Finally, the PPC, which would function in the manner described above, would provide a forum within which voting representatives of the three key ministries (MALR, MoS, and MPE) and non-voting representatives of other concerned ministries would interact on a regular basis.

FIGURE 4. ALTERNATIVE MODEL II



The second problem area—that of novelty, complexity, and diffusion of authority— is less easy to resolve. Novelty in program organization may be necessary to achieve the various objectives being sought for APRP, which is itself a novel program. While the alternative organizational models proposed here are complex, they do have a management unit that will serve as the backbone of APRP, communicating with participants in APRP, following up on decisions reached, and ensuring compliance with AID procedures and regulations.

With regard to the diffusion of authority, it needs to be noted that there is a trade-off between the need for organizational coherence, on the one hand, and the need to include vital and affected institutions and interests, on the other. The organizational models proposed here are attempts to maximize that tradeoff. The PPC, working under the guidance of relevant ministers, and supported by the Management Unit, is a sufficiently small and coherent body to provide program direction, leadership, and supervision.

The third problem, which is that of handling two types of program activities within the same management structure, might be resolved by treating proposals for projects differently than unilateral benchmark-meeting initiatives by ministries. Whereas the former would be handled by the PPC forwarding ministerial initiatives to an appropriate task force to develop the project with the assistance of the Technical Assistance Unit, the latter would be facilitated by direct access to the Technical Assistance Unit itself. The PPC would assist in administration of ministerial initiatives and the Monitoring and Verification Unit would also be involved. The PPC would not, however, have authority over the initiative. Despite having no authority over such ministerial initiatives, the PPC would provide a useful forum in which to coordinate such initiatives between ministries.

Alternative resolutions of this problem would be either to amend the organizational structure by deleting the task force component entirely, or to deformalize relations between the PPC and task forces, the latter of which would be formed entirely on an ad hoc basis.

The cost of dropping task forces entirely would be that APRP would not have a formal mechanism to enable the program to draw on a range of interests and expertise in support of its activities. The cost of deformalizing the relationship between the PPC and task forces would be greater uncertainties in project management, as well as a potential tendency to not utilize the task force mechanism but to restrict consideration of all initiatives to intraministerial actors. Since formalization of procedures with APRP to some extent necessarily represents a diminution of power of high-ranking ministerial officials, USAID has to determine what it wants from the trade-off between the benefits of formalization and the costs of some dissatisfaction with the project structure within relevant ministries.

#### **D. Flow of Work within the Alternative Models**

The complex organizational structures depicted in Figures 3 and 4 are designed to foster "friendly competition" between ministries. The prizes that would be awarded would be approvals of activities (projects) and obligations of funds to the "winning" ministries. The

competitive element would exist even if a large portion of the funds were obligated at the outset of the program. The competition would be over speed of implementation and over funds not yet obligated.

The procedure of competition would be for ministries to develop ideas, or "concept papers," consonant with APRP objectives. They would forward these to the PPC. That committee would review these proposals and either send them back to the ministry with suggestions for clarification, modifications or improvements, or refer them to an appropriate task force. The job of the task force would be to convert the concept paper into the equivalent of a project paper, a document sufficient to serve as the basis upon which funds could be obligated.

To develop concept papers into project papers, the task force would request the Technical Assistance Unit to undertake technical evaluations of alternative policies and approaches. The Monitoring and Verification Unit would also be involved at this stage, to develop realistic benchmarks for project performance. The task force would then produce a project paper, which would be referred back to the PPC. The PPC would consider that paper and vote on it. If approved the project paper would be forwarded to AID and the appropriate ministries for their approvals and signatures.

Rules of procedure within the PPC and the task forces would need to be fully formalized and followed. These rules would include provisions for decisions by majority vote; regularly scheduled meetings; business conducted according to pre-circulated agendas; recording of all decisions reached in meetings; and other provisions intended to facilitate effective organizational practices. The Management Unit would be responsible for maintaining the flow of formal communications within the PPC, and among the PPC, ministries, task forces, and USAID.

In summary, the manner in which the most complex of the organizational structures would operate has been described in ideal-typical form. Various elements of this structure, and some of its formalized processes, might be modified and incorporated into another type of institutional structure under which APRP could operate effectively. The primary purpose here has been to try to demonstrate some of the benefits that could be derived from greater formality of organization and access to APRP for a wider range of interests and actors than was the case with APCP.

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## APPENDIX A

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### UTILITY OF PROPOSED INSTITUTIONAL FRAMEWORK FOR PRIVATIZATION OF EGYPT'S COTTON TEXTILE SECTOR

#### A. Conceptual Issues

My experience with the Cotton Textile Sector of Egypt corroborates the general conclusions reached within the APRP Institutional Framework about the "perceptual context", the "array of interests", and the "Egyptian political and administrative contexts". Some additional, selective comments about Egypt's political and economic systems are offered here in the hope that they will assist the deliberations on these conceptual issues.

Given the (noncontroversial) conclusion that "Egypt does not now have, and is unlikely to have in the near future, an open, competitive political system," (p. ) it is asserted here that a fundamental objective for USAID must be to find various ways to bring the different interests involved in the cotton textile sector into the political process as it currently exists. Sufficient to justify this assertion is the fact that USAID cannot overtly force a change in the political process as a means of opening it up to the diverse economic interests.

A "true market" is analogous to a "true democracy." Egypt has neither of course, because genuine alternatives are not allowed either in politics or in the economy. Indeed, **there is a logical correspondence between a society's economic system and its political system**. Thus, success in opening the economy precipitates forces that foster an opening of the political system. Perhaps more accurately, it precipitates forces that contend with existing political forces for control. This correspondence must be acknowledged and incorporated into USAID planning, because failure to do so will preclude a coherent program to foster continued liberalization ( i.e., "deregulation" or "opening") of both the economic and political systems in Egypt.

The converse is also true; opening the political system will foster an opening of the economy. But USAID is constrained from engaging in overt influence over the political system; to do so would be seen as "subversive." Limited efforts toward overtly influencing the economy are allowed; nevertheless, these are also subversive, since success within the economy will eventually undermine the foundation of a closed political system. Diversifying economic power also diversifies political power.

It may be helpful to think of a "spiral" of cause-and-effect that goes from liberalization to restructuring to political opening to pervasive privatization. Conceivably, it is possible to break into this spiral at any juncture; however, USAID is largely constrained to focus on liberalization and restructuring in Egypt. Probably the **fastest** way to achieve privatization is to "break in" at the top of the closed political hierarchy and impose market-oriented behavior on the country. (Examples of this include Turkey in the 1920's and, in more recent times, Chile and Mexico.) But conditions that might enable this do not exist in Egypt; besides, the political arena is off-limits to USAID.

Why not simply insist on acting only when privatization is immediately feasible? A compelling reason is that **privatization will not occur unless it seems advantageous** (or at least neutral) to the existing closed political power structure. Surely it is obvious by now that such serendipitous occurrences are rare in Egypt. Also, such **privatization will tend to occur only within the circles of the closed political power structure**; therefore, it will tend to be inconsistent to the diversified, entrepreneurial results of a bona fide privatization process. Indeed, there is risk that pressures could be created to protect the interests of the insiders who invest in bogus privatization. It seems self-evident that USAID should not be perceived as collaborating in such closed deals.

It seems highly probable that Egypt has lagged behind the pace of other countries in privatization primarily because it has dispensation to do so. To the extent that this is true, the dispensation is rooted in international geopolitical realities that agencies like the USAID do not control. In fact, the IMF and World Bank may make credible threats about cutting economic lifelines to regimes in many third world countries, but that is not yet possible in Egypt.

It must be decided, therefore, whether it is worthwhile to exploit the best available opportunities (sub-optimal though they be) to repeatedly break into the cause-effect spiral at liberalization or restructuring junctures, in order to help create conditions that may hasten evolution toward privatization and representative democracy. This is the approach underlying the recommendations for institutional structures and organizational designs in this report.

The logical alternative to the foregoing course of action is to withdraw some discrete distance from the playing field and wait until the rules of the game change enough to allow a more direct approach. This appears to be the course of action recently selected by USAID/Cairo with respect to privatization of the public sector textile companies.

Perhaps there is a third alternative; namely, to withdraw completely from the arena of influence on the market structures of Egypt. Perhaps USAID could return to a more traditional role of assisting with fundamental infrastructures for things like electrical power generation, sewage systems, flood control, etc. Reverting to this role, however, would amount to virtual surrender on issues related to the "propping up" of a non-viable economic system.

## B. Perceptual Disconnects in Textile Privatization

The report titled "An Action Plan to Restructure, Deregulate, and Privatize the Textile Sector of Egypt" caused substantial frustration within USAID/Cairo. Unlike its predecessor, "Assessment of Potential for Liberalization and Privatization of the Egypt cotton Textile Subsector," it was a collaborative effort with the Ministry of Public Enterprises. As such, it delivered a plan that did not go beyond the stated commitment of the government of Egypt. It did not contain commitments on behalf of the GOE that it would be unlikely to keep. The former report embodied a straight-forward analytical approach and an explanation of the merits of moving rapidly toward open markets, decentralized control, and private enterprise. The limited analysis embodied in the latter report did not controvert any previous analytical conclusions. Yet the action plan focused primarily on restructuring and deregulation. It dealt with privatization as the objective that must (1) be kept in mind when executing the various steps and (2) come to the forefront after certain initial steps are taken.

It is beguiling to think that there are coherent plans, or even specific intentions, to move an approximate number of firms or an approximate percentage of the industry's capacity into the private sector. But this would be a misrepresentation. Even the Egyptian leadership that genuinely wants to privatize textile companies cannot foresee a scenario unfolding until after a process of restructuring that rationalizes the operations and reveals the potential (or lack thereof) for competitive production. American managers, were they in charge of the process, would reach conclusions that would be both swift and final. Egyptian managers, however, have to contend with the social contract with textile laborers. The obstacle of labor redundancy and its political repercussions is sufficient to forestall dramatic actions by both Egyptian managers and the political leadership.

Therefore, the only plan that could be developed which would be "real"--which would have the commitment of the responsible Egyptian leadership--was a process. The process embodied numerous actions, but it began by radically pruning away the clearly non-viable machinery and equipment, significantly downsizing the industry and revealing the core that might make the transition to private enterprise. Even this first step would no doubt present the government with realities too painful to confront head-on, but the process would cause decision makers to search for ways to accommodate the realities. The implication was that, if USAID were a dynamic part of the process, it could press for the selection of ways that prevented the perpetuation of excess capacity and were conducive to the entrance of private enterprise.

The lack of explicit targets for privatization proved unacceptable to USAID. But greater specification of privatization results to be obtained would have been fabrications--which are a poor basis for project planning. Another implication of the plan was that, if the government proved to be too unfaithful to the objective of privatization at crucial junctures of the process, USAID could register its objections and even withdraw its participation based on insufficient progress. It needs to be emphasized that the door was opened wide for conditional USAID participation by the Minister's stated intention to begin immediately with

the technical restructuring and pay for it with GOE funds. Perhaps before that happened, a meaningful dialogue could have been developed that would have survived even beyond the official participation of USAID. Surely this relates to the fundamental objective to "intensify, broaden, and deepen policy dialogue" that was identified on page 27 of this report.

Two major barriers must be overcome before privatization of public sector textile companies in Egypt can proceed in an orderly fashion: debt and labor. Resolving the labor dilemma was not made an explicit component of the action plan, because the problems and the solutions are so multifaceted that they would have to be addressed through distinct processes, which USAID apparently is ready and willing to help develop as long as privatization is the immediate objective of those labor arrangements.

The action plan did commit the government to develop (without financial assistance from USAID, either in negotiation or execution) a framework for resolution of the debt. Furthermore, the commitment was to have the debt resolution framework make transparent the amount of indebtedness remaining the responsibility of the various companies. The type of debt resolution package that actually emerged would imply much about the feasibility of genuine privatization. The entire negotiation process could be monitored (and perhaps influenced) by USAID. Since the debt resolution process was to be done within the same time frame as the first stage of technical restructuring, USAID financial assistance could also have been made conditional on this outcome. Again, however, the prospect of monitoring, debating, and passing judgement within such a process did not strike USAID/Cairo as worthwhile. The result was to become "unplugged" even before a decision had to be made about whether to commit more resources to the privatization process.

It is acknowledged that there is little or no optimism among the personnel of USAID/Cairo that significant marginal progress toward privatization would occur within the process embodied in the action plan. Nevertheless, the question remains about which negotiating tactics would maximize the ability of USAID to **influence** the progress.

### **C. Structural and Management Correspondence**

The action plan for the textile sector has several key similarities with recommendations in this report. For one thing, it would institutionalize a cooperative effort between the MPE and the three Holding Companies that are responsible for public sector textile companies. Representatives from these would make up part of a "monitoring committee."

If the MPE were also associated with the MALR and other ministries in the APRP, there could be substantial influences on liberalization of the cotton/textile sector. For example, resolution of cotton trade issues could be helped by interactions between the vested interests of agriculture and textiles. The felt need within the textile sector to have access to

larger quantities and wider varieties of raw cotton could interact with the felt need within the agriculture sector to maintain export markets for the extra fine cotton produced in Egypt. Perhaps imports could be allowed in return for removing restrictions from exports. These kinds of needs are met through processes of political compromise--regardless of the cultural and political environment within which they occur. It may be argued that the interactions producing the compromise would be a poor substitute for an open political debate; nevertheless, they would be better than the current absence of debate.

The "task forces" recommended in this report are more macro-oriented than is the task force recommended in the action plan for the textile sector, but the basic purpose of all of them is to focus on central objectives that are compatible between APRP and the action plan. A consultative or collaborative relationship among the APRP task forces and between them and the textile task force should come fairly naturally. As the action plan for textiles moved beyond the initial steps, the need for interactions by the textile task force with expertise contained in the APRP task forces would steadily increase. Also, experiences within the textile sector would provide an important context for developing better understanding of the larger issues such as market development, labor redeployment, and debt resolution.

If the technical assistance unit existed now, and if it had a focus on the textile sector, it might help pull together the task force proposed in the textile action plan. Furthermore, if the monitoring/verification unit existed now, it might alleviate the concern within USAID/Cairo about a conditional acceptance of the process embodied within the textile privatization action plan.

In summary, the components of the textile action plan, which were developed within the context of a specific industrial public sector in Egypt, are quite compatible with the components of the APRP structure developed in this report. Therefore, the recommended structure for APRP, were it incorporated into the actual program, would likely facilitate a broader commitment to the action plan than currently exists. The reason why the proposed structure would render the action plan more operable reverts back to the underlying theme of this appendix; namely, the tactical approach in both cases is to engage in a process of liberalization/privatization that is based on attention to cause-and-effect factors (at the microeconomic and micropolitical levels) that tend to move Egypt toward a more open economy and toward more dispersion of economic and political power.

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## APPENDIX B

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### **The Changing Roles of Ministries, Public Sector, and Private Sector in the Agribusiness of Egypt under Policy Reform**

After about three decades of centrally-planned and state-run agricultural production and trade patterns, Egyptian agriculture has been witnessing significant changes towards market driven forces, liberalization, and less government control. To provide a conducive atmosphere for liberalization and privatization, several measures have been taken, including the removing of compulsory cropping patterns and compulsory delivery systems for certain crops; pricing of several inputs and outputs at less than normal prices; and divestiture of the public sector companies in the agricultural production sector by selling their assets to the private sector. The private sector has been allowed to export and import farm products and inputs including wheat, wheat flour, rice, fertilizers, and pesticides.

To explain the interministerial relations between various ministries and institutions in agriculture, it may be useful to consider the agribusiness complex in Egypt consisting of the "farming sector;" the "prefarming sector," including processing and manufacturing of farm inputs and equipments; and the "post harvest sector," including marketing and processing of farm output. The agribusiness complex includes as well international trade for agricultural inputs and outputs.

Before economic reform, the MOA has been playing the most important role both technically and administratively in the prefarming as well as farming sectors. PBDAC has played the role as the government agent under the supervision of and in coordination with MOA. PBDAC's activities provided farmers with seeds, fertilizers, chemicals, agricultural machinery, feeds, and credit.

MOA was responsible for the implementation of agricultural policies including area controls, production controls, types of rotations followed, as well as farm output pricing policies. PBDAC used to receive farm outputs and delivery inputs as a major Government organization receiving farm outputs on behalf of the Government.

The Minister of Agriculture used to issue price decrees for supply commodities like wheat, sugar, and cotton. This has been done in coordination with relevant ministries and institutions. In case of staple foods, coordination will be with MOS. In case of cotton, coordination will be with MOI. Irrigation water policies are negotiated between MOA and MOPWWR.

The role of the MOS is demonstrated mainly in the post-harvest sector of the agribusiness complex. Before economic reforms this role was manifested through: (1) the role of the General Authority For Supply Commodities (GASC) established in 1967 to procure staple food (and other supply commodities) from local and international markets, (2) supervising trade activities, (3) Pricing of staple commodities at wholesale and retail levels, (4) Management of public sector food processing industries, (5) Management of food distribution systems (owned by public sector, and (6) Supervising National Rationing system for Supply Commodities.

To assume these responsibilities, the MOS had to both coordinate efforts and have interministerial relations with several ministries, including the MOA (concerning local agricultural production of food and fibers), the MOI (for the production of sugar and oil as well as other food products), the MOE, and the MOF (to get the foreign currencies needed for importation and the subsidies). Still other ministries include the Ministry of Transportation and Ministry of Health.

After the economic reform and the emergence of the public enterprise system, several changes have been taking place in the roles of the MOA, MOS, public enterprise system, and private sector involvement in the agribusiness complex. In particular, the role of PBDAC as a commercial bank has been increasing and its role as supplier of subsidized farm input has been decreasing. Since 1986, MOA has been playing the leading role in implementing measures conducive to liberalization and privatization of the agribusiness pre-farming and farming sectors. The major role of MOA is currently applied research, agricultural extension activities, and collection, analysis, and dissemination of information.

The MOS, under the transitional phase is still in charge of staple food (wheat, wheat flour, and some other commodities) from local and international markets through GASC. This will continue as long as these basic commodities are subsidized. This necessitates coordination with MOPE and the Holding Company for Wheat and Rice Milling.

MOS is also in charge of rationing system for sugar, oil, and tea. The agenda of MOS includes undertaking the state's role in the internal trade. This is a major responsibility for the MOS in the coming phase and includes monitoring of markets, quality control, and inspection, protection of consumers.

At the early stages of the development of privatization, it is expected to have complementary relationships between private sector and the public enterprise system. This is due to the fact that the newly emerging private sector usually does not own all the needed infrastructure. For example, the private sector that imports wheat to Egypt does not own port silos, inland storage capacities, or adequate milling or transportation facilities. All these facilities are available at, and are usually hired from the public enterprise system. The same is true in case of private rice exporters. The private sector situation lacks rice milling facilities capable of producing exportable rice qualities. These facilities are hired from the public enterprise system. Until the private sector owns the needed infrastructure, the

development of privatization, in agribusiness, will depend on the successful coordination between the private sector and the public sector.

It is expected that the pace of development will gain momentum. The nature of responsibilities and roles of the ministries, public enterprise, and the private sector will change in the coming phase to address the changing needs of liberalization and privatization.

Looking at agriculture from an agribusiness complex view, several actors are expected to be involved in the course of liberalization and privatization. However, the key actors in this regard are MOA, MOS, and MPE. These are the key ministries most involved in the future development of agribusiness in Egypt. In addition, the private sector would be a major actor, with an increasing contribution to the economic development process. Therefore, an organizational structure capable of attaining coordination between the major actors would be conducive to the achievement of the APRP goals.

Figure 1 on the following page represents an organizational structure which could be implemented. According to this structure, the minister of agriculture is the chairman of the Board of Directors of the Steering Committee for the project. The members include the Minister of Supply, the Minister of Public Enterprise, and a representative of the private sector. This Committee will provide directives and the follow up for the activities of the project.

The next level includes the chairman of the policy Planning Committee responsible for the management of the program. Members of this committee represent senior officers from various related and relevant ministries, ex-officers, experts, and private sector representatives. The chairman of the policy Planning Committee should have extensive experience with the roles and interministerial relations between MOA, MOS, MPE, other related ministries and institutions, and the USAID office.

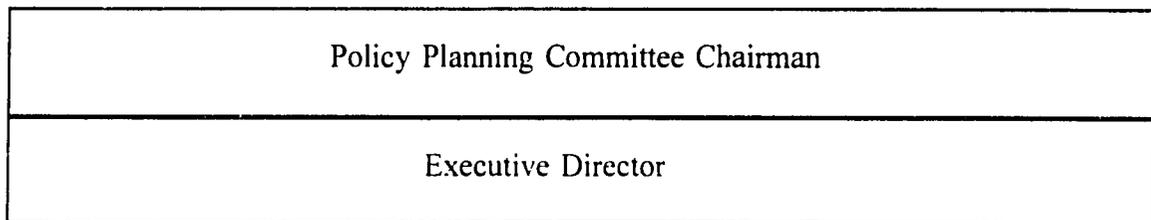
The policy Planning Committee chairman would be assisted by an executive director an appropriate specialized staff and an executive secretariat.

**Figure 1 - Organizational Structure**



Chairman: Ministry of Agriculture

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## PURPOSE AND OBJECTIVES

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This document is a supplement to section I, "The Context for Agricultural Policy Reform," of INSTITUTIONAL ANALYSIS FOR POLICY REFORM, a report submitted by Chemonics International, Inc., to USAID/Cairo, on 15 November 1994. The broad purpose of this document is to further elaborate the political/administrative context within which the Agricultural Policy Reform Program (APRP) will operate. Specifically, its objectives are to:

- Identify aspects of the Egyptian political economy and Egyptian-U.S. relations which may affect APRP and evaluate their potential impact;
- Assess political/personal relationships among the ministers of Agriculture, Supply, Public Enterprise, and Public Works and Water resources, identify problem areas, and recommend institutional arrangements which could alleviate those problems;
- Explore the role of the People's Assembly in the policy reform approval process, with special reference to the possible role of the agriculture and other committees in expediting decisions on economic policy reform;
- Analyze the potential role of labor unions in helping to overcome labor redundancy (the principal obstacle to privatization of public enterprises), and determine whether or not the GOE and labor unions can cooperate in developing a long-term plan for labor that would facilitate privatization.

### A. Context of the Egyptian Political Economy

Three aspects of the current Egyptian political economy militate against rapid, systematic structural adjustment, and the ability of external donors through conditionality and policy dialogue to have a major impact on the direction or speed of that adjustment. Those aspects are, (1) the comparative strength of the economy; (2) the comparative weakness of the polity; and (3) problematical external relations.

#### A1. Economic Strength

Although the economy is severely recessed, with GNP per capita having declined steadily since the mid to late 1980s and unemployment having risen during that period to about a fifth of the labor force, economic stabilization measures have had some beneficial consequences. Among them are reduced budget deficits (2.2-2.4% of GDP in 1993/94 compared to 4.1% in 1992/93); a lower inflation rate (7.5% at present compared to 12.5% in 1993); a stable currency (which has declined only slightly more than 6% against the dollar since 1991); declining interest rates (treasury bills have fallen in a two year period from 19% to around 12%); and foreign currency reserves (which doubled to \$12 billion in the two years from January 1992.)

57

Paradoxically, those beneficial consequences are retarding the rate of structural adjustment, in part because they have reduced donor leverage, and in part because they appear to have convinced Egyptian decision makers that further urgent reforms are unnecessary. Although the third and final tranche of the 1991 Paris Club debt-relief agreement has been delayed as a result of a disagreement with the IMF over devaluation, it is expected to be released soon, thus removing that source of leverage over Egyptian economic policy. Not facing a balance of payments crisis, having adequate foreign currency reserves, and having a manageable budget deficit, all make it possible for Egypt to avoid draconian reform measures, if it so desires. The economic "cushion" that has been built up as a result of stabilization is apparently going to be used not to soften the negative impacts of structural adjustment, especially privatization, but to relieve mounting social and political pressure. Public sector wages and social spending are set to rise in the coming budget year by almost 20%, with a smaller rise in spending on subsidies also forecast.

In sum, current economic strength, although superficial in that it reflects fiscal/monetary stabilization and deflation, rather than expanding output and structural adjustment, is sufficient to reduce the leverage of donors, obviate the apparent need for immediate micro economic reforms, and provide resources for increases in civil service wages and social spending, measures which the government deems as vital to preventing further socio-political unrest.

## **A2. Political Weakness**

Political weakness prevents the government from aggressively pursuing structural adjustment. It fears the reaction to attempts to impose short term hardship in the hopes of obtaining long term economic gains. The fear which underlies this calculation is due primarily to political weakness which results from a lack of representative government. Egyptians cannot change their government through peaceful means. The primary bases of support for the government are the military and security services. No large, coherent, potentially influential civilian constituency, whether workers or businessmen, civil servants or farmers, thinks of the government as "theirs," accessible to it and reflecting its interests.

The gap between state and society has been growing for several interrelated reasons. First, the state has been unable to keep its side of the "social contract" that was first forged during the Nasser era. That contract calls for citizens to surrender the right to participate in politics and shape public policy, in return for guarantees of economic welfare from the state. Having had their real incomes erode for a decade or so, many Egyptians are questioning the competence of the government, some even its right to rule.

Second, as exogenous revenues available to the state have declined, it has been forced to extract endogenous resources from the public, primarily through increased taxation. Ali Negm, former director of the Central Bank, noted recently that between 1987 and 1993 the rate of increase in taxation "ranged between 20 and 30 percent. . .one of the highest rates among developing countries" (*al-Ahram Weekly*, 24-30 November 1994). The sales tax imposed in 1991, which averages 10 percent of retail prices, produced revenues of LE6.3 billion in that year and LE8.1 billion in 1993. The battle cry of American revolutionaries-- "No taxation without representation!"--expresses a timeless, cross-cultural popular sentiment.

But the representation for taxation tradeoff has not been effected in Egypt. Indeed, in the face of growing popular resentment over taxes and declining standards of living, and a rising tide of radical political Islam over the past two years, the government has further restricted access to and the role of representative institutions. Mayors and deputy mayors, who formerly were elected are, as of 1994, to be appointed by the minister of interior. Elections to governing boards of professional syndicates, which Islamists have recently begun to win in the most powerful and prestigious of those organizations, are now to be voided if turnout is less than 50%, which it has been for virtually all such elections throughout this century. The government will then appoint the members of the syndicate's board. The government has several times modified Law 32 of 1964, the primary legislation that grants it the power to control voluntary associations. Those modifications have been intended to preserve the essence of the legislation, not to make it easier for voluntary associations to operate. The Emergency Decree, which essentially suspends certain constitutional provisions, has remained in effect throughout the incumbency of the present president. The national dialogue, held in June and July, 1994, failed to bring about a reconciliation between government and opposition, in part because the former refused to put on to the agenda current constitutional and legal restrictions on political participation. Parliament's consideration of some issues of political reform was pre-empted by the president in November, 1994, when he decreed changes prior to the opening session.

Barriers to participation in representative institutions, already substantial, have been further raised since 1992. More taxation has been coupled with less representation. The consequence is reduced support for and loyalty to the government, which in turn renders it less capable of making and imposing decisions that are unpopular with certain constituencies, such as decisions to privatize state owned enterprises.

Finally, the gap between state and society has been growing because the former is viewed as being secular while the latter is increasingly religious. The Arab-Israeli peace process, which many Islamists in Egypt and elsewhere perceive as a threat to the Muslim identity of the Arab world, and in which the government of Egypt has played a vital role, exacerbates state-society tensions. The heightened salience of that peace process, and continuing violence in Gaza and the West Bank, place ever greater pressure on the GOE. For it to add to that pressure by embarking upon bold measures of structural adjustment, would be politically risky. It no doubt is perceived that way by key decision makers. Their view is that it is better not to antagonize Islamist and other opposition to the government at precisely the time when the peace process is in a delicate and difficult stage. Better to wait until it is less salient, until the violent Islamist opposition has been further subdued, and until the beneficial effects of civil servant salary raises and increased social spending are felt more widely, before confronting new challenges of economic reform.

### **A3. External Relations**

Egypt's external relations are troubled by two phenomena. First, Egypt's role in the region has, for the first time in two generations, become unclear. Under Nasser, Egypt was the leader of the Arabs. Sadat redefined that leadership role, but the role itself remained unambiguous. But Egypt's declining preeminence, the peace process, the substitution of "the

Middle East" for "the Arab world", the growing division of the latter into Maghrib, Mashriq and Gulf and, within those geographic areas, subregional fragmentation, have called into question Egypt's place in the region and the world. Unable to lead all the Arabs because of its declining relative capacities and because of Arab political fragmentation, Egypt has yet to decide whether it should try to lead some of them and, if so, which ones and to where? The October 1994 decision to join the Arab Maghrib Union seemed to suggest that Egypt was casting its fate with that subregion and turning its back on the Mashriq and Gulf, an impression that the government has since sought to dispel. But it has not clarified the ambiguity which increasingly surrounds its intentions as regards foreign policy. The attentive public is concerned with this lack of clarity and attributes it to various deficiencies, including those of intra-elite machinations and the declining personal health of key decision makers.

Related to the lack of clear direction in general foreign policy is growing strain in the crucial relation with the U.S. Articles that appeared in the American press in the fall of 1994, which alleged corruption in the President's family and Egyptian violations of the Libyan embargo, precipitated a mini-crisis in bilateral relations. While the immediate problem may have been overcome by the visit of high level U.S. officials to Cairo in early December, 1994, and by conciliatory statements in Washington, major issues remain unresolved. Egypt's stance on the nuclear non-proliferation treaty and the proposed convention governing chemical and biological weapons, which is divergent from Washington's, is more symptom than cause of problems. At the core of the issue is Egypt's importance to U.S., hence the level of foreign assistance Washington will provide. Growing divergence between Cairo and Washington on specific issues probably are the former's attempts to demonstrate what the costs would be were the latter to renege on the 1979 "deal," which provided Egypt \$2.3 billion annually in exchange for peace with Israel. Whether the newly assertive, Republican controlled Congress will appreciate these nuanced signals, or simply react negatively to them, thereby further complicating U.S.-Egyptian relations, remains to be seen. But what is clear now is that the Egyptian government is uncertain as to the major objectives of its foreign policy, of the means which it should employ to attain them, and of the future of its "special relationship" with the U.S.

For any country such major ambiguities surrounding its foreign policy would be bound to have domestic repercussions. But for Egypt, which has long defined itself in large measure in terms of its dominant relations with other states of the region, these ambiguities are particularly troublesome. Until they are clarified they are likely to act as another brake on innovation and decisive decision making on domestic economic issues. This is so because foreign policy issues, always time consuming for the decision making elite, will become even more so as challenges intensify. The delaying impact of foreign on domestic policy will also occur because of inherent linkages between the two. If the special relationship with the U.S. is to further deteriorate, for example, domestic policies and policy makers associated with Washington are likely to suffer. Or, if Egypt is to define its identity more as Mediterranean/European than as Arab, then its domestic political economy will be at least partially rearranged to reflect that self-identity. But whatever the substantive outcome of the resolution of numerous foreign policy challenges, the very fact that they exist and are going to have to be dealt with is going to sap much of the remaining vitality in domestic decision making.

In conclusion, the comparative strength of the economy, coupled with the weakness of the polity and the debilitating impact of foreign policy challenges, will combine to act as a brake on the rate of economic reform. The present conjuncture of the political economy is not conducive to broad, macro economic policy change. Instead, that innovation which is likely to occur will be more tentative and experimental, rescinded if confronted with significant opposition, but followed up with further commitments if deemed to be successful.

## **B. Inter-Ministerial Relations**

### **B1. Nature of Relationships**

Relations between cabinet ministers are determined primarily by the constituencies each serves, the channels through which each is recruited into the cabinet, the administrative structure over which each presides, the purposes of the ministries themselves, and personal factors.

#### **B1a. Constituencies**

The impact of their different constituencies on relationships between the minister of agriculture (MA), minister of supply (MS), minister of public enterprises (MPE), and the minister of public works and water resources (MPW), is to place different degrees of strain on those relations. The primary, broad constituencies are farmers, consumers, state owned enterprises, and farmers, respectively. Ministers are expected to champion the interests of their constituencies. Thus, in theory, the MA is the cabinet spokesperson for higher commodity prices; the MS for consumer interests; the MPE for assistance to state owned enterprises; and the MPW for free and efficient water delivery. But theory and practice diverge because constituencies are diverse and their interests can be interpreted in various ways. So, for example, in previous cabinets the MA and MS have clashed because the former has supported high commodity prices whereas the latter has supported low food prices for consumers. At present, however, the incumbent MS is emphasizing his constituency's interest more as protection from unhealthy products than as access to cheap food. As a result, the conflicting interests of those constituencies have not been a major factor in the relationship between the MA and MS.

The impact of constituency servicing on ministers is reflected in the behavior of the newly created ministry of public enterprises. Originally created as an alternative to the ministry of industry and to facilitate privatization, the MPE appears gradually to be assuming the former role of the minister of industry as the primary champion of state owned enterprises. The language of that advocacy has changed, so that it is now couched in terms of restructuring and competitiveness, but advocacy it is. This change in the role of the MPE is the result of the obligation imposed on ministers to represent the interests of their constituents. It is rare indeed that a minister will behave otherwise.

The evolving role of the MPE as advocate of the public sector is imposing strains on his relations with the MA, while overlapping responsibilities between the MPE and MS are a threat to that relationship. The former problem is due to the fact that the MA seeks further

privatization of the forward and backward linkages to agriculture in order to improve farm incomes, hence agricultural productivity. The MPE, however, necessarily has become an advocate of restructuring as opposed to privatization. The conflict between the two will probably intensify as constituency pressures, especially on the MPE, grow.

The MPE--MS relationship is analogous to the old one between the minister of industry and MS. That relationship was always imperiled by the fact that the latter controls some vital food processing industries, which the ministry of industry (and now the MPE) covets. This problem is accentuated by the fact that the staff of the ministry of supply tend to be recruited from among agricultural engineers, while that in the ministry of industry (or now the ministry of public enterprise) are recruited from among other engineers, economists, or financial specialists. As a consequence, professional and personal loyalties further divide rather than unite these ministries.

The MPW has a major secondary constituency among those involved in building and maintaining the irrigation system. Indeed, this constituency is more immediate to him than farmers. Since he, like many of those constituents, is from a civil engineering rather than agricultural background, he tends to be more closely associated with the builders/operators of the irrigation system than its users. While this is not an identity or a cause that an astute MPW loudly proclaims, it is one that tends to introduce strain in his relationship with the MA. That relationship typically is already threatened by the long standing competition between agricultural and civil engineers, and by the struggle of each discipline to gain control over the other's portfolio.

In sum, the constituencies of all four ministers pull them in different directions and impose strain on their relations. The least problematical of those constituency induced strains appears to be that which affects the relationship between the MA and the MS, largely because the latter has redefined the traditional role of that minister. Whether this is a permanent or temporary redefinition is not clear, although the background of the MS in agriculture and his apparent commitment to liberalized economic policies in general suggest that it may be reasonably permanent. As the MPE becomes more closely associated with the state owned enterprises that the ministry was created to privatize but to which it inexorably is being attracted, strain will increase between him and the MA and, to a lesser extent, the MS. Strain between the MA and MPW tends to be a chronic, low level, rather than acute problem.

### **B1b. Recruitment Channels**

The MA and MS were recruited into the cabinet through similar channels. The former combined a career in university education in agriculture with activity in the political party prior to becoming minister. The latter went from the ministry of agriculture into governorships of two important provinces before becoming minister. In other words, both had significant experience in agriculture and politics before entering the cabinet. They are able to draw upon connections within agriculture as well as the political arena more broadly, including the highest levels, to obtain desired objectives. Their similar backgrounds and shared technical expertise should facilitate the continuation of a close working relationship.

The MPE was recruited into the cabinet primarily as a result of public administration skills and ability to deal effectively with foreign donors. He did not have prior political experience, nor does he represent a technical specialization, such as agriculture or engineering, that would provide useful contacts. His background and means of recruitment into the cabinet suggest that his role is more that of administrative specialist than formulator of policy.

The MPW, like all but one of his predecessors in this portfolio, was recruited from among the ranks of civil engineers. This is not a portfolio for the politically ambitious or well connected. Even for civil engineers other portfolios, such as housing, are more attractive. The manner in which ministers of public works and irrigation are recruited, which is less "political" than recruitment of many other ministers, and the nature of the portfolio itself, render this minister a junior member of the cabinet.

The impact of differing recruitment channels is to draw the MA and MS together because of their shared background in agriculture and politics, and to separate them from the MPE and MPW, whose professional and political backgrounds do not provide substantial bases of support.

### **B1c. Administrative Structure and Purposes of Ministry**

The MA presides over a bureaucracy that employs in excess of 400,000 personnel, the MS heads up a ministry with over 46,000 employees, and the MPW is another large bureaucratic organization. The MPE, by contrast, essentially has no autonomous administrative structure. Instead, it has a small staff that interacts directly with holding companies and companies under their jurisdiction. But such interactions are not equivalent to those of a minister and employees in his ministry, for the holding company directors have greater autonomy than ministerial employees do. The role, therefore, of the MPE is quite different from the role of the other ministers. His role primarily is one of coordination, rather than of direct management of a large administrative structure. This renders the MPE weaker than those ministers who command large administrative organizations.

The implied purposes of the ministries of agriculture and supply are similar. The former has significant responsibility for ensuring rural political quietude, while the latter has the same responsibility with regard to urban Egypt, the primary area in which subsidized food is consumed. The ministry of public enterprises has partial responsibility for preventing labor unrest. These are vital political functions that reinforce the importance of these ministries and their heads and give them access to other important governmental arenas and actors. The ministry of public works has no equivalent function, although in recent years irrigation water shortages have led to protests in rural areas, for which the MPW has to bear some responsibility.

These implied or latent purposes, as opposed to more manifest functions of the ministries, are of vital importance to the careers of ministers. If the constituencies serviced by their ministries cause political problems, the ministers' careers are likely to be terminated. It is not coincidence that the MA and MS had political experience before assuming their

portfolios. These ministries have greater political burdens than the other two. The impact of administrative structures and purposes of ministries is to reinforce the connections that link the MA and MS, and to separate them from the MPE and MPW.

It should also be noted that cabinet roles are also important. Within that body the MA serves as Deputy Premier, hence outranks the other three ministers. In terms of seniority, the MA is the longest serving minister, followed by the MPE, with the MPW and MS being the most recent additions. The short cabinet experience of the latter is offset by virtue of the fact that he served for some eight years as governor, a cabinet level position.

#### **B1d. Personal Factors**

Although the personal styles of the four ministers differ substantially, the MA and the MS have demonstrated a capacity to work cooperatively over many years. Some of the major components of agricultural policy since the early 1970s are products of collaboration between these two individuals. The MA, although much the most powerful of the four ministers, has a self effacing personal style that facilitates personal relationships. Although both the MA and MS have worked extensively with foreign donors, neither is in the public mind closely associated with those donors. The MPE, on the other hand, is thought by some to be closely associated with the USG. That perceived association could prove to be a liability were U.S.-Egyptian relations to deteriorate. In addition, the MPE is somewhat more outspoken than either the MA or MS, whose public pronouncements are invariably strictly within their spheres of competence.

In sum, the MA is a skillful administrator/politician whose primary strength is his ability to open and maintain lines of communication with a wide array of individuals and groups, and to convince them of his sincerity, integrity, and usefulness. The MPE's personal style is almost the antithesis of that of the MA, for he places more emphasis on public pronouncements and less on personal relations and the day to day servicing of interests. The MS's personal style is essentially that of a highly competent technocrat who knows the precise bounds of his sphere of influence.

Although the chemistry of personal relations is difficult to understand, let alone predict, it is probable that the long established working relationship between the MA and MS is strong enough to withstand the stresses and strains of cabinet politics and subcommittees within it. The relationship between those two ministers, on the one hand, and the MPE on the other, is less well established and the personal styles are so different that they may pose a barrier to effective interaction.

#### **B2. Problem Areas and Recommended Institutional Relationships**

The possibility that the working relationship between the MA and MS would break down is not great. Were that relationship to sour, however, it would have very negative consequences for all policies affecting food production and consumption. Probably the best approach to ensuring that any institutional structure not injure the established working relationship is to permit the two individuals to define it as much as possible themselves,

within a framework that is consistent with the formal prerogatives and ranks of their respective roles. They have worked together for years in other settings and in the cabinet for many months. For outsiders to seek to structure their relationship could have deleterious consequences. Thus the proposed structure should recognize the senior role of the MA as Deputy Premier by awarding him the chairmanship of the APRP interministerial committee, whether it is permanent or ad hoc.

The potential for difficulty in relations between the MA and MS, on the one hand, and the MPE, on the other, is much greater. The constituencies, channels of recruitment, and other factors mentioned above all militate against the establishment of a working relationship as effective as that which exists between the MA and MS. Moreover, a major component of APRP is to be privatization of agriculturally-related state owned enterprises. Privatization is nominally the domain of the MPE, whether the industries involved are closely related to agriculture or not. It can be anticipated that the MPE would not welcome intrusions of other ministers into his sphere of authority. Thus a permanent interministerial committee which placed the MPE below the MA might cause the former to absent himself as much as possible from proceedings, or in other ways demonstrate his unhappiness with the assigned role.

Since the structural bases for potential difficulties in the relationship between the MPE, on the one hand, and the MA (and possibly MS), on the other, are not going to be changed, an institutional arrangement needs to be devised that will take account of them. Probably the most effective such arrangement would be one that allowed for a high degree of voluntarism by the respective ministers, possibly accompanied by direct relations between those ministers and USAID. So, for example, instead of forming a permanent interministerial committee in which the MA would be chair and the MPE a member, it might be advisable for a committee to be formed on an ad hoc, as needed basis. Such an ad hoc committee would be less likely to be paralyzed by interpersonal relations. If negative relations threatened to disrupt such a committee's activities, its ad hoc nature would render them less damaging. In addition, such an ad hoc committee would not stand in the way of direct relations between USAID and various ministers, including the MPE, whereas a formal committee structure with a chairperson would make that direct contact somewhat more difficult. The MPE would not want his relation to USAID to be mediated through the MA, which to some extent it would be were the MA chair of a permanent program committee.

The MPW's primary and possibly sole involvement in APRP would be in cost recovery activities for irrigation. That being the case, it makes little sense to include the MPW in a permanent interministerial program committee. He could be brought in on an as needed basis to deal with cost recovery activities.

In sum, the long established, close working relationship of the MA and MS, further underpinned by the present lack of constituency induced or other structural problems, suggests that the core ministerial-level institutional arrangements of APRP should be based on these two ministers. That could be in the form of either a permanent or ad hoc committee. A potential shortcoming of the former is that a two person ministerial committee comprised of the MA and MS, with the former as chairman, could alienate other ministers, including the MPE and MPW, who would need to be invited on to the committee on an as

needed basis. It might be preferable, therefore, for the ministerial committee to be ad hoc in nature, chaired by the MA, and including those ministers whose portfolios are to be affected by APRP activities. This would ensure that the three key members of the committee are the MA, MS, and MPE. The relationship between the first two should facilitate the effective functioning of such a committee.

### C. Role of the People's Assembly

The People's Assembly (PA) has some capacity to make positive contributions to economic policy reform. A large proportion of its members are landowners. They played a role in blocking a government backed proposal to impose a surtax on orchards in the early 1970s. In 1992 they were a significant force behind legislation to amend the 1952 agrarian reform law. To the extent that the interests of landowners are supportive of economic policy reform, such reform proposals will be received favorably by them in the PA. The present PA has very few MPs of either the ruling National Democratic Party (NDP) or opposition parties, who are staunch opponents of economic policy reform. Thus the PA, if it acts as representative of its members' interests, is not an obstacle to reform and, as previous experience suggests, has some capacity to contribute to the process.

The independent role of the PA, however, should not be overstated. In the case of the orchard tax in 1972, landowner MPs were able to mount vociferous opposition in part because the government itself was divided on the issue. Some observers even claimed that President Sadat opposed the proposal that had been made by his own Prime Minister. Similarly, amendments to the 1952 agrarian reform law had been proposed by the NDP agriculture committee as early as 1985. The bulk of the political elite, including the cabinet, supported those proposed amendments. Thus landowner support in the PA was consistent with, not opposed to, government policy. It is reasonable to assume that in both the 1972 and 1992 cases the government played some role in mobilizing landowner MPs to support the proposed legislation. While that support is no doubt useful in the PA itself, as well as in the broader political arena, it is not a measure of autonomous power of PA members.

In order to exercise such autonomous power, the PA would need more internal public policy making capacities than it presently possesses. Among other requirements it would need effective committees, supported by trained staff and having access to information and other resources. At present committees have virtually no professional staff and little access to relevant information. The primary task of committees is to pass the relevant section of the proposed budget or other ministerial initiatives. That task is typically accomplished by the chairman reading the relevant document *in camera* before benches only partially occupied by committee members. Those members have few if any resources to challenge budgetary or other proposals, which are based on the vastly disproportionate informational and other resources the government has at its disposal. It is very rare indeed that committees propose amendments to draft legislation. The budget passed this year, for example, without any amendment, which is usually, although not always the case.

The agriculture committee occasionally has asserted power. It did so with regard to the 1972 and 1992 cases mentioned above. It also did so in the late 1980s and early 1990s

when, under a chairman who was a competitor of the MA, it served as a vehicle of the personal interest of that particular chairman. He made it widely known that "his" committee would not endorse any changes to the 1952 agrarian reform law. By so doing he delayed that step for as much as several years. When that chairman was removed, the legislation then passed.

The autonomous power of the agriculture committee, which in the case just mentioned was due to the personal political power of the chairman, is restricted by the capacity limitations which afflict all committees, by the propensity among MPs to ignore committees (where there is no public record of their activity, hence insufficient reward for activities therein) in favor of activity in plenary sessions, and by the existence of parallel committees in the NDP. It is in those party committees where legislation favored by the government is first proposed and then hammered out. Since NDP members comprise the overwhelming majority of all committee members in the PA, the passage of legislation already endorsed by NDP committees is usually guaranteed. It is worth noting that the NDP agricultural committee is firmly under the control of the MA.

The primary contribution the present PA can make to economic policy reform is to endorse proposals that originate in the executive branch. This is so because the PA is subordinate to that branch, and because the composition of the PA heavily over-represents those elements that would benefit from further policy reform. It is highly unlikely that the PA would independently take any major initiative that would affect the pace or extent of economic policy.

It is worth noting, however, that the composition and capacity of the PA are not static. The fall, 1995 election will likely produce a parliament in which opposition political parties win considerably more than the some 10% of seats they now hold. It is possible that somewhere around 100 of the 454 members will be opposition party supporters or independents. Although opposition parties are not united in their approach to economic policy reform (the Wafd party, for example, supports accelerated reform, while the Socialist Labor Party, the Nasserists and the Alliance Party generally oppose reform), the presence of significant numbers of their members in the PA will raise the level and intensity of debate on reform. Privatization in particular is likely to be hotly debated, especially in plenary session where opposition speakers receive coverage in both the electronic and print media. While the government-backed party will remain the controlling force within the PA, it will have to take greater account of opposition views.

As far as the capacity of the PA is concerned, it is scheduled to be upgraded as a result of USAID's Decision Support Services Project, which will commence early in 1995 and will build upon UNDP efforts already underway. While results cannot be expected overnight, the significant infusion of commodities, technical assistance, and training will, within the scheduled six year life of the next PA, have an impact on that body's capacities.

In sum, while at the outset of APRP the PA is unlikely to play any autonomous role that would affect the Program, by the end of APRP the PA may have the will and the capacity to become involved in issues of economic policy reform. If that indeed is the case,

then reform issues, possibly including USAID programs and projects, are likely to be investigated in some detail by the PA, from both sympathetic and unsympathetic angles. Indeed, there is a slight possibility that such investigations could occur sooner if the GOE deemed them to be of benefit with regard to its relationship with the U.S. The PA thus has potential to be a more active player in the policy reform game. Whether that potential is realized, however, remains to be seen.

#### D. Role of Labor Unions

Labor unions and the GOE are unlikely to cooperate in developing a long-term plan for labor that would facilitate privatization. Resolution of the labor issue would require greater will and capacities than either side possesses. The GOE is extremely sensitive to workers' responses to policy initiatives. Since the Nasser era its general strategy toward labor has been to take fairly timid steps in the direction of freeing up labor markets. When those steps have met worker resistance, they have immediately been rescinded. Given the level of Islamist political action at the present time, the growing influence of that movement within unions and among workers more generally, the present relatively low level of economic activity--hence inability of the private sector to absorb labor--and the lack of well institutionalized structures and processes that could facilitate GOE/labor union negotiations, it is unlikely that the government would seek an across the board, long term plan which would accommodate labor to privatization. Delay of the new labor law, which is reported to contain a tradeoff of the right to strike for surrendering job security, and which was scheduled to be introduced into the PA in 1994, but has not been, is suggestive of governmental hesitancy.

This is not to suggest, however, that the GOE will not continue to attempt to liberalize labor markets in an incremental, tentative fashion. Indeed, it is very likely to continue to probe in this area, moving ahead when it does not meet serious opposition. Even the new labor law may well be introduced and passed through the PA, but it is likely to be hedged around with various provisos that greatly dilute its impact. In other words, the GOE will seek to overcome labor resistance to privatization not in one dramatic step or piece of legislation, but through a continuous process of muted negotiations.

Labor unions themselves are poorly equipped to negotiate major changes to labor practices that impact upon privatization. Workers are sharply divided on reform issues. A 1987 study of a large public sector textile plant, for example, revealed that "the seniority system by which all promotions of workers were guided, produced four age cohorts with very different maximizing strategies and no little friction among them. . . The seniority system not only led to declining productivity and high turnover, but in fact inhibited worker solidarity and promoted inter-cohort resentment." (John Waterbury, *Exposed to Innumerable Delusions*, pp. 236-37, referring to the study by J.S. Henley and Mohammed Ereisha, "State Control and the Labor Productivity Crisis," *Economic Development and Social Change*, v. 35, no. 3, pp. 491-521.)

In addition to divisions caused by strict adherence to seniority, workers are divided by political affiliations, the most critical of which is that between secular leftists, Islamists, and (among union leaders at least) supporters of the GOE and its political party. Struggle for

influence within the labor movement has been a primary feature of the ongoing contest between these three forces since the 1930s.

Further divisions within labor result from their particular working conditions. The blue collar/white collar divide, which exists on the shop floor and throughout large enterprises, is not recognized in the union structure, which is industry rather than trade based (In 1964 the government reduced the number of union federations from 64 to 27. In 1976 Sadat, out of the desire to impose greater control on unions, further reduced the number of federations to 16). Thus white collar workers, a significant percentage of whom are underemployed, are active in the same unions that ostensibly represent blue collar workers, who are, at least in the public sector cotton textile industry, fully or over employed. One suspects that labor militancy is inversely proportional to useful daily work and therefore strongly correlates with white, rather than blue collars. Unions that represent both, which is the case with the huge, industry wide textile union, can hardly present demands that serve the interests of both types of members. For that reason it is unlikely that this or other such unions could serve as effective bargaining agents.

Union weakness also results from the fact that workers "won" favorable conditions and legislation not through union activities, but through governmental beneficence. Previous governments granted privileges not because they were forced by unions to do so, but because they sought to exchange economic privileges for political quiescence. When workers directly challenge employers and/or the government, they are responded to with overwhelming physical force, as they were in Kafr al Dawwar in October, 1994. While the stick of force is typically matched with some carrots in the form of concessions, these tend to be offerings tailored to specific situations and not to have general applicability.

Much union leadership has been co-opted by the GOE, thus creating a gap between it and the rank and file. Even if the former were able to negotiate agreements, the latter might not accept them. Ossification of leadership is suggested by the fact that turnover in such positions, which are chosen through elections, is virtually nil. The president of the Confederation of Labor is an ex-officio member of the cabinet. From 1962 to 1976 the president of the Confederation was drawn from the textile workers' union, the largest and best organized union in Egypt.

The division between union leadership and rank and file is accentuated by the highly centralized nature of the Egyptian Trade Union Confederation. Under the union laws of 1976 and 1981, administrative and financial controls over federations and their local affiliates by the Confederation were strengthened, further reinforcing the pyramidal shaped structure and undermining what little degree of autonomy was left with federations and their affiliates. As one writer on the subject notes,

Leaders of an industrial federation, for example, might be hamstrung in their resistance to public sector reforms until they have gotten the approval of confederation leaders, a process that would require time, bargaining and perhaps compromise with other federations who are not affected by the reform scheme. By the same token, local leaders may be straitjacketed when it comes

to individual plant issues, if they require the consent of federation officials before taking any action. In other words, provisions for hierarchy, which facilitate the influence of top union leaders with national policy makers, serve simultaneously as restraints on lower level union leaders and the workers they represent. (Marsha Pripstein Posusney, "Labor Opposition to Economic Reform in Egypt," paper presented to the American Political Science Association annual conference, 1993, p. 13).

Centralization of the union structure thus undermines the capacity of the Confederation to negotiate across the board changes, and of the federations to negotiate industry specific policy reforms. Neither the GOE or the unions are likely to be able to bargain effectively and reach a workable agreement that will facilitate privatization.

The weakness of both government and unions suggests that a coherent, holistic approach to reform is unlikely to be successful. Instead, what is required are concrete, small scale proposals that workers, managers, and private investors can understand and act upon without the imposition of policy guidelines or constraints by the Confederation, or possibly even relevant federation. Most proposals are likely to benefit blue collar more than white collar workers, whereas it is the latter who exert greater influence within the Confederation, and probably federations as well. Proposals should, therefore highlight the benefits to be gained by production workers and seek thereby to gain their support.

The wage gap between the public and private sector, which was in a ratio of 1.5 to 1 in 1970, progressively narrowed after that time as the private sector began to grow. By 1984, wages in both sectors were equal. By the early 1990s, it is highly probable that private sector wages have become higher than those paid in the public sector. The attractiveness of private sector employment has increased, while that of public sector employment has decreased. Workers with skills and other attributes that provide mobility have left the public sector. By and large these are production workers and younger, better trained and educated ones. Thus the public sector is left with older, predominantly white collar workers. If it were possible to "grow" the private sector, while gradually shrinking the public, time would resolve the issue before too long, given the high average age of workers in public sector enterprises.

Private sector growth, however, is retarded by the existence of the public sector. But since wide ranging reforms, including privatization, are unlikely to occur in the near future, it is preferable to attempt small scale, pilot activities than to do nothing at all. The union structure is top heavy and weakened by the factors mentioned above. If privatization proposals are attractive to workers, they are likely to accept them even in the face of union opposition, should it arise.

## E. Conclusion

Rapid, across the board structural adjustment, including privatization, is unlikely to be undertaken by the GOE in the immediate future. Successful economic stabilization measures have provided a cushion which obviates the need for dramatic policy change and which will probably be distributed through wages and social spending to prevent social unrest. Donor leverage, already considerably reduced, will be further eroded when the final tranche of the 1991 Paris Club agreement is released.

Domestic and foreign policy issues also are likely to continue to hinder the structural adjustment process. The absence of effective, representative policy making institutions deprives the GOE of legitimacy required to take and implement difficult, unpopular decisions. More taxation stimulates demands for greater representation, demands to which the GOE has yet to adequately respond. The rapidly evolving regional political environment presents a major foreign policy challenge to Egypt. That challenge will consume much of the time and energy of high level decision makers who, because of the economic cushion, will in any case be less disposed to devote energies to domestic economic policy issues. Thus, what progress is made in structural adjustment is likely to be incremental, driven less by top down macro policy changes than by bottom up, sector specific innovations that do not entail major political risks and which take the form more of pilot projects than decisive policy shifts. In this environment privatization is better viewed as a continuum rather than as a discrete category juxtaposed to public ownership. Operating within the context of a political economy which is not highly conducive to further structural adjustment, APRP will need to have the capacity to identify and respond to opportunities for sectoral specific innovations.

APRP will also be operating within the framework of inter-ministerial relations, the most relevant of which are those between the ministers of agriculture, supply, public enterprises, and public works. The former two ministers have a long established working relationship that is reinforced by the nature of their ministries, by the way in which the minister of supply has defined the interests of his ministry's constituency, by the channels through which both were recruited into the cabinet, and by their personal styles. The minister of public enterprise does not have an established working relationship with these other ministers. Aspects of his portfolio, as well as his background, suggest that it is unlikely that a relationship similar to that which exists between the ministers of agriculture and supply will develop. The ministry of public works is a junior portfolio and its occupant is a cabinet newcomer, so he is subordinate to the other three ministers.

The apex of the APRP organizational structure needs to recognize the superior formal position of the minister of agriculture and take advantage of his informal power position, as well as capitalizing on the working relationship between the ministers of agriculture and supply. This suggests that the core of any interministerial committee, whether permanent or ad hoc, should consist of these two ministers. This arrangement probably does not need to be structured formally, however, both because it will probably be operative in any case and because if it were formalized, it might have deleterious consequences for the participation of the minister of public enterprises and minister of public works. An ad hoc ministerial committee, chaired

by the minister of agriculture and including the other three ministers on an as needed basis, appears to offer the best possibilities for successful program development.

The People's Assembly presently lacks the autonomy and the capacity to make a significant contribution to economic policy reform. It can, however, serve as a megaphone for the executive branch, which may wish to trumpet certain reforms through it, seeking thereby to gain further support. The executive could also allow the Assembly to attack economic reform measures if for some reason, such as a deterioration in bilateral relations with the U.S., it deemed such an attack to be useful, but did not want to mount it directly itself.

The 1995 parliamentary elections, combined with USAID's Decision Support Services Project, will have an impact on the autonomy and capacity of the Assembly. That impact will first be felt in 1996 as the new parliament begins to establish its procedures of work and priorities. While it is unlikely that the Assembly will assume a major responsibility for making public policy, it is possible that it will become much more vociferous in commenting on it and seeking to shape it at the margins. Such increased activity could contribute to or impede further economic policy reform, depending in part on the composition of the Assembly, and in part on the GOE's strategy at that time.

The highly centralized nature of labor unions tends both to disguise their internal weaknesses and to contribute to them. Weaknesses are due to the heterogeneous composition of unions, to the cooptation of union leadership, to the aging nature of the public sector work force, and to the increasing attractiveness of private sector employment. Centralization of the union structure renders it difficult for federations and local organizations to negotiate over specific issues that affect their memberships. Because of its paradoxically centralized, yet fragmented nature, and the fact that those controlling it respond more to the wishes of white as opposed to blue collar members, the Confederation of Trade Unions is unlikely to be able successfully to negotiate policy reforms that would expedite privatization. The approach to labor by APRP, therefore, were there to be one, should be focussed at the lower level of union organization and take the form of specific, small scale proposals rather than wide ranging policy changes. This approach should maximize the role of blue collar workers in negotiations, whose prospects for employment in the private sector are much better than those for white collar workers.

In sum, the political economic context in which APRP will operate, and its objectives, suggest that its focus and structure should differ from those of APCP. Macro structural adjustment resulting from broadly based policy reform is unlikely, so progress needs to be sought in micro-level, sector specific innovations. This approach is much more likely to appeal to the ministers concerned, who will not have the authority to make major policy reforms but will be able to undertake more limited initiatives. It is also less likely to encounter opposition from the centralized, but increasingly ineffective union organization. It could also avoid potential problems with an activated People's Assembly.