

PARALLEL INSTITUTIONS, LATE DEVELOPMENT, AND ECONOMIC REFORM IN
EGYPT AND JORDAN

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Introduction

Foreign donors with substantial ground operations in developing countries often face a fundamental dilemma: state-building, late development, and economic reform can be a politically costly process, and occasionally aid recipients have access to sufficiently large amounts of foreign aid that they can “buy” institutions from donors rather than creating them from local resources. In some countries, like South Korea and Taiwan, these “parallel institutions” have been a temporary fix following massive social dislocation wrought by war and colonial withdrawal. In other cases, such as Egypt and Jordan, they have existed for a generation or longer. In these countries, parallel institutions have provided recipients with a means to enter late development and implement limited economic reforms without dismantling the broader patronage state. Parallel institutions have also secured new sources of rent for coalition members when distributive institutions are forcibly dismantled through donor conditionality. Since parallel institutions require longstanding commitments for financial and technical resources that geopolitically irrelevant states would be unable to extract, they are generally limited to countries that have managed to maximize their geopolitical relevance to great power donors. This chapter will discuss the origins, characteristics, and functions of a variety of longstanding parallel institutions in Egypt and Jordan.

A primary function of the state is to provide public goods that encourage economic growth and efficiency. One important public good is physical infrastructure (Jimenez 1995; Coatsworth 1998; Demurger 2000; Sachs 2005; UNDP 2005). Industrial firms require access to water, power, roads, and communications to manufacture, transport, and market their goods. The workers that staff the industrial sector live in highly populated areas, which also require infrastructure to support everyday life. Coatsworth (1998) argues that the lack of security, infrastructure, and other basic state functions explains economic stagnation in Latin America during the mid-nineteenth century. Demurger (2000) finds that infrastructure, combined with geographic distance, explains differential rates of economic growth in China, concluding,

It is now usually recognized that infrastructure, including transport services, telecommunications, power, and irrigation can improve the productivity of all inputs in the production process and thus strengthen long-run growth performance by facilitating market transactions and the emergence of externalities among firms or industries (103).

Although infrastructure can be provided privately, in most developing countries the bulk of infrastructure is financed by the state. Economic theory justifies government provision of infrastructure based on market failures arising from externalities in consumption and production, economies of scale, failures in related markets (such as credit, labor, and insurance), and the issue of non-excludability (Jimenez 1995, 21). The provision of infrastructure is one of the largest obstacles for late developers due to the high costs of building and maintenance and their lack of capital to invest, whether due to minimal taxation or lack of a taxable surplus (UNDP 2005, 7, 19). Even when they do have capital to invest, developing countries tend to sink it into new investments and ignore the recurrent costs of maintaining roads, public and government buildings, agricultural equipment, and communications equipment (Heller 1992, 52; Jimenez 1995, 49).

A second type of public good is effective market regulation. The international economy has changed significantly since most late developers commenced industrialization in the 1950s.

Trade liberalization and the imposition of tight restrictions on specific types of state intervention in the economy by international financial institutions have changed the overall environment in which countries must develop. Developing countries now must not only industrialize using a circumscribed set of policy options, but also compete with a broader range of goods and services in international markets (Wade 2003). In this environment, states retain active and diverse roles across countries and regions. They provide important regulatory and legal frameworks for economic transactions, decreasing uncertainty, promoting confidence in investments, and providing information on the private sector (Chaudhry 1994). They attract foreign capital in the form of loans and foreign direct investment and help countries develop comparative advantages in higher value-added goods and services.¹

Both “hardware,” like infrastructure, and “software,” such as economic reforms and market regulation place extraordinary demands on state institutions. For the state to directly provide public infrastructure, such as roads, irrigation, and power, it needs to extract more taxes from society and recruit and train people who can plan, implement, and maintain capital projects. For the state to facilitate privately-held infrastructure, it needs competent institutions that are capable of planning, awarding, and monitoring build-operate-transfer (BOT) or build-own-operate-transfer (BOOT) contracts with private companies. To generate effective market regulations, the state needs lean, coherent, and efficient institutions and more tax revenue to finance institutional upgrading (particularly with regards to information-gathering capacity and competitive salaries for bureaucrats). It also needs to free itself from the demands of any rent-seekers whose preferences, if realized, would detract from the overall goal of long-term development.

Coalition pressures in Egypt and Jordan have necessitated a variety of distributive state institutions that funnel external rents, including foreign aid, to coalition members-- and that have remained untouched by lax donor conditionality. These institutions include limited domestic extraction and an unqualified and bloated bureaucracy, two institutional traits that seriously circumscribe the ability of the state to provide a range of public goods to society (Chaudhry 1994, 2-7). Reforming or replacing these institutions to allow for the state provision of public goods could mean political suicide. Reforms such as minimizing the size of the civil service, instituting a merit-based pay schedule, increasing taxes, liberalizing trade, making government procurement a competitive process, and reducing industrial and consumer subsidies would cut into important side-payments to coalition members. Recall that a disparate coalition consists of two or more groups with policy preferences that, if enacted, impose costs upon the other coalition member(s), for which the regime must compensate the aggrieved party with additional selective benefits, called side-payments (Waldner 1999). Coalition members in a disparate coalition do not merely seek rents to satisfy their own desire, but also to seek compensation for costs imposed upon them by other coalition members' rent-seeking. To have side-payments removed imposes a double cost: the loss of the rent, and the loss of rent that financially protected

¹ The motivations for some state interventions are functional, arising from market failures. For instance, markets are not ideal coordination mechanisms when there is rapid technological progress, increasing returns to scale prevail, firm cooperation is required, and there are a number of decentralized monetary transactions (Hollingsworth and Boyer 1997). Other state interventions reflect societal imperatives. As Karl Polanyi (1944) pointed out 65 years ago in *The Great Transformation*, markets cannot be conceived of separately from the societies that produced them. Hall and Soskice (2001), for example, point out that the institutional features of coordinated market economies, many of which reflect the power of labor unions their societies, allow these economies to specialize in process innovations.

one coalition member from the preferences of the other. Reforms that involve destroying side-payments therefore are more risky than those that remove regular selective benefits.

Donors can help solve this dilemma through the provision of parallel institutions that produce necessary public goods in lieu of reform or, if some reform is required, that secure alternative sources of rent for coalition members. USAID has long used parallel institutions to provide infrastructure necessary for late development in both Egypt and Jordan. More recently, parallel institutions have also helped Egypt and Jordan with challenges posed by economic reform. In Egypt, parallel institutions have become vehicles for pro-reform elements of the regime coalition. Endowed with tremendous financial and technical resources provided outside of the normal government budgeting process, these reformers have accelerated economic reforms in Egypt in last five years. In Jordan, parallel institutions have also allowed reform, but the benefits of these reforms have been captured and funneled as rents to compensate coalition members for costs imposed by conditionality that Jordan has been unable to avoid.

This chapter proceeds in five parts. The first section defines parallel institutions and discusses their various institutional manifestations. The second section discusses USAID's role in supporting the Aqaba Special Economic Zone, a Jordanian regional authority whose ultimate purpose has been to secure new sources of rent for members of the Hashemite coalition. The third section discusses U.S. support for technical units in Egypt, which generate economic reforms at the national level. It also provides a brief discussion of a failed technical unit in Jordan. The fourth section explains how USAID as an external institution has continued to provide hydraulic infrastructure to Jordan post-1990, while Egypt has weaned itself of this dependency. The fifth and final section revisits the American dilemma of parallel institutions and sustainable development in Egypt and Jordan, making explicit reference to Krasner's (2004) concept of "shared sovereignty."

Defining Parallel Institutions

Parallel institutions are created for a variety of motives, exist in a variety of forms, and produce different outputs, yet they share several common institutional features:

First, parallel institutions rely on foreign donors for most or all of their institutional resources. Donors provide the funding for the parallel institution, including administrative and operational costs, the production of goods or services, and the hiring of competent staff. Donors also provide technical expertise, either directly through the procurement of donor-employed personnel, or indirectly through financing local employees that are considered to be hires of the parallel institution.

Second, parallel institutions are highly autonomous from the central bureaucracy of the recipient. This bureaucratic autonomy arises from several sources. One obvious source is donor support, which frees parallel institutions from normal civil service hiring procedures and renders them subject to different salary scales and promotion criteria. Another source of autonomy is the freedom of parallel institutions from audit by the recipient government bureaucracy. Finally, parallel institutions are generally so comprehensive in their activities that they are able to function without having to interact with the central bureaucracy. Parallel institutions engage in pre-planning, planning, implementation, and monitoring/ follow-up. This comprehensiveness

arises from a realization on the part of donors and recipient stakeholders that the activities of parallel institutions can be sabotaged by the central bureaucracy at any stage if the latter is allowed to participate.

Third, parallel institutions have a degree of political autonomy from certain groups in society. Parallel institutions are supported by a powerful political figure, generally the ruling executive, which repels rival coalition members. Additionally, the availability of external assistance circumvents the normal budgeting process, thereby severing the influence of elected legislatures and cabinets. In many authoritarian regimes, economic policy is generally formulated within the cabinet, where ministers that represent opposing factions of the same coalition feud over various budget and policy priorities. This is an important veto point for economic reforms. The second veto point is the parliament. Parliaments are in the very least “thermometers” for public opinion and at most valuable devices for rousing the condemnation of different constituencies over unpopular policies. In the case of parallel institutions, therefore, the opposition cannot contest funding to parallel institutions through normal channels, and due to the lack of auditing, the opposition may not even be aware of how much funding a parallel institution receives or how this funding is used.

That parallel institutions have some degree of insulation and autonomy does not mean that they are apolitical, nor does it mean that they always provide public goods. What sort of outputs a parallel institution produces depends not only on the resources available and its institutional configuration and jurisdiction, but also who controls the institution and what their interests are. In some cases, it is in the interest of the individuals or groups that control the institution to provide public goods, such as infrastructure or efficient market regulation. These public goods are available to all, but their provision is usually backed by groups that would benefit from them disproportionately (i.e. while less red tape in customs benefits all, importers and consumers of imports benefit the most). In other cases, parallel institutions are an explicit device for rent-seeking, and their autonomy allows the groups that control them greater access to rents than their competitors.

In countries where parallel institutions exist to compensate for low institutional capacity (particularly in the case of post-war reconstruction), rent-seekers can be curbed, and the political will to build effective institutions is of primary importance, parallel institutions tend to be short-lived. Recipients will absorb the responsibilities of parallel institutions and even their organizational structure, as was the case in South Korea and Taiwan—both of which were home to extremely narrow business-technocrats coalitions. However, in countries ruled by distributive coalitions, there are political disincentives to merging parallel institutions with the central bureaucracy. If parallel institutions that provide public goods were to be assimilated, they would need to either (a) introduce efficient procedures, organizational patterns, and policies, which would displace existing patterns of patronage; or (b) face sabotage by the status quo bureaucracy. If parallel institutions that provide selective benefits were to be assimilated, their rents would become available to a broader group of beneficiaries, reducing the shares accruing to existing beneficiaries.

Donor-Providers

The first type of parallel institution is a donor-provider. Donor-providers are institutions housed within the donor agency that perform the essential functions of the recipient bureaucracy in a particular sector. Donor-providers account for all core state functions in the sector, including studying, planning, implementation, and monitoring. Donor agencies that provide only one of these functions do not qualify as donor-providers.

Unlike other types of parallel institution, donor-providers can be highly insulated from political pressures in the recipient and are thus ideal for providing public goods. Their management is foreign (in these cases, American) and their existence does not depend on pleasing any particular constituency in the recipient. Additionally, since donor-providers have their own research capabilities, there are no information asymmetries between donor and recipient. This means that local political factions cannot trick donors into providing selective benefits instead of public goods. However, donor-providers can be lobbied to provide selective benefits, a pressure that they might succumb to if donor goals are geopolitical.²

The most common sector in which donor-providers are found is in physical infrastructure. The U.S. played a leading role in planning, expanding, and maintaining infrastructure in Egypt and Jordan. Jordan had minimal infrastructure and few sources of government finance when the U.S. started operating as a donor. Egypt's infrastructure was a remnant of the British period, but by the time U.S. aid arrived in large scale in the late 1970s, the government had been unable to finance infrastructural maintenance or expansion for nearly thirty years and the system was in decay. The planning, coordination, building, and maintenance of infrastructure by donors are under-recognized phenomena in the literature on state power and capabilities. The provision of public services and infrastructure is often used as an indicator for administrative capacity or infrastructural power more broadly (Putnam 1993; Brautigam 1996), with little attentiveness to who is financing these services in developing countries. In many cases, donor organizations are financing infrastructure, and states are neither as capable nor as powerful as they appear (Kamel 1999).

Recipient-Providers

The subject of institutional reform brings to mind what Kahler (1992) has called the "orthodox paradox," wherein states are supposed to reduce their role in the economy yet also grow stronger in their regulatory and information-gathering capacities. States that require the most improvement are often those that are least capable of undertaking it. As a result, developing countries often bring in new policy elites for the task. These policy elites, conceptualized by Waterbury (1992, 1993) as "change teams," are supported by a powerful executive for a time and given sufficient authority to make major policy changes. Waterbury (1992, 191) defines a change team as:

² For example, a particular regionally-based group may claim that it needs a road more than another regionally-based constituency. Since the donor-provider is capable of surveying the situation on its own and realizing that this statement is false. However, the ruling executive may step in and claim that the first group needs the road more because they are an important group in his coalition, and the donor-provider may oblige the ruler.

Technocrats with few or no links to the political arena, although their prominence in the realm of macrostrategy may lead to such links. But in their capacity as the brain trust of the political leadership they will be politically isolated and utterly dependent on the head of state. Conversely, for the team to move an agenda will require the visible and consistent support of the head of state.

These teams have led some of the most successful economic reforms in the developing world. Examples include Pinochet's "Chicago Boys" in Chile, the "two-passport Turks," and Mexico's "Ivy League group (Williams 2001, 12-13)." Yet as Haggard (1994, 470) writes, "The critical question is not whether a technocratic team exists, but where it sits in the institutional matrix." These change teams, at minimum, require an institutional home from which they can base their operations.

The best institutional home is one that is capable of insulating itself from bureaucratic and political pressures. Geddes refers to such institutions as "pockets of efficiency." However, the term "pockets of efficiency" implies that efficiency is the ultimate goal of these institutions, something that is rarely the case. As such, the term "recipient-provider" is used in this study. There are two types of recipient-provider, technical units and regional authorities; their least common denominator is their location within the recipient bureaucracy rather than inside the donor agency.

Technical units are autonomous entities located within national level institutions of the recipient state, particularly important economic ministries. Each technical unit has a specific sectoral mandate, such as finance, trade, banking, etc. Technical units have a "local face." They are staffed by local technical experts and they are responsible to specific recipient country officials, who have the support of the executive and a pro-reform coalition member. Under the skin, however, technical units are supported by donor technical and financial assistance. Donors indirectly finance salaries of technical unit employees and provide training programs and office equipment. Donors also support technical units with massive open-ended technical assistance projects implemented by foreign consultants, and attach conditionality to annual cash transfers that expand the jurisdiction of technical units. At the level of implementation, the work of technical units is often provided or assisted by specific donor projects, allowing the technical unit to circumvent the central bureaucracy.

Technical units are not simply implementers of tasks, but entire institutions with pre-planning, planning, implementation, and monitoring capabilities. These features render them distinct from technical assistance, technical cooperation, or project implementation units (PIUs).³ Technical units can be considered a manner of technical cooperation in that they do occasionally transfer knowledge from donor to recipient (though more often they simply attract the knowledgeable locals). They can also be considered types of technical assistance in that they

³ The OECD defines technical cooperation as "activities whose primary purpose is to augment the level of knowledge, skills, technical know-how, or productive aptitudes of the population of developing countries (in Berg 1993, 44)." It defines technical assistance as the "financing of services with the primary purpose of contribution to the design and/or implementation of a project or program aiming to increase the physical capital of the recipient country (in Berg 1993, 44)." PIUs are autonomous, aid-financed organizations that improve project management when crucial institutional capacity is lacking or civil service staff is overburdened (El Baradei 2006, 1-8).

often work to implement one or more aid projects or programs, although they perform other tasks as well--differentiating them from PIUs.

Since they are located at the national level, technical units are less amenable to generating selective benefits and better suited to providing public goods—particularly effective regulations. Technical units devise and implement economic reforms, enforce property rights, cut through red tape, and may even preside over entire parallel segments of the economy, essentially running a liberal market operation in an otherwise state-dominated environment.

Regional authorities are autonomous local governments that provide decentralized governance, infrastructure, and economic incentives over a geographically defined region. These “states within states” perform a wider array of activities than technical units. While a technical unit located in a ministry of finance only deals with fiscal policy, for instance, regional authorities provide a range of regulations, as well as physical infrastructure, within a given area. In addition to receiving donor assistance, regional authorities may also have the ability to collect their own revenue.

Although they may be labeled as such, recipient providers are distinct from special economic zones (most of use centrally-administered special economic regimes) in that they have their own authorities. These authorities are typically set up because national-level institutions are extremely hostile to their institutional embodiments or because the technical and financial resources at the national level institutions are insufficient. The geographic location of regional authorities is typically chosen based on a given area’s access to transportation or existing economic capabilities.

What explains the presence of recipient-providers in many developing countries? Why would recipient executives and donors choose to create and maintain a separate set of institutions rather than assimilating them into the central bureaucracy? There are two possibilities. The first is that recipient-providers allow for the implementation of costly reforms in a politically feasible manner. In her (1994) study of Brazil, for instance, Geddes finds that “pockets of efficiency (POEs)” like the National Bank for Economic Development (BNDE), allowed Brazilian presidents Vargas and Kubitschek to implement important components of their national development plans without undertaking civil service reform; as in Egypt and Jordan, these executives were compelled to exchange bureaucratic patronage for political support.⁴

The second possibility is that recipient-providers are a source of rents for coalition members. The most prominent example of a rent-seeking parallel institution in the Middle East is Lebanon’s Council for Reconstruction and Development (CDR). After 1992, the CDR grew into the government’s main instrument for planning, financing, and implementing the country’s reconstruction program. Directly attached to Prime Minister Rafiq al-Hariri’s office, the CDR was an institutional vehicle employed by Hariri to bypass sectarian stalemates in the parliament and the Cabinet. The CDR had an extremely ambiguous mandate, including “planning duties,” “advisory functions,” and “executive duties,” as well as the authority to solicit domestic and foreign loans to finance the projects it decided to carry out. It was financed by Gulf aid, free

⁴ Most of this funding was raised domestically through surtaxes deposited directly at the BNDE, though World Bank aid and PL 480 counterpart funds were also used (Willis 1995).

from external audit, and staffed by Hariri's associates and private employees. With this extrajudicial power, the CDR used the \$10 billion Horizon 2000 for the Reconstruction and Development of Lebanon Plan as a means of outsourcing reconstruction activities to Hariri's favored business partners (Kisirwani 1997, 95; Leenders 2004, 182-183).

Whether or not the recipient-provider in question provides public goods or rents, its continued existence is dependent upon the support of three parties: the donor, the executive, and a group of beneficiaries and supporters within society. But who might these beneficiaries be? The early literature on the politics of economic reform derives much of its inspiration from Mancur Olson's work on collective action problems (Olson 1965, 1982). It generally assumes that the benefits of economic reform are dispersed across a broad class of beneficiaries in the long term, while the costs are concentrated among only a few in the short term. While the large number of beneficiaries and the uncertainty of gains results in disorganization for "winners," due to their small numbers and relatively high, foreseeable stakes, the "losers" have an incentive to organize and block economic reforms (Krueger 1974; Haggard and Kaufman 1992; Waterbury 1992). The implication of this argument is that to achieve reform states must act in the interest of the disorganized winners. Only enlightened, autonomous states that are insulated from the pressures of the losers are capable of devising and implementing reforms (Evans 1992; Haggard and Kaufman 1992; Geddes 1994).

Yet a revisionist literature in the politics of economic reform scholarship argues that coalitions of winners do actually exist. It justifies this claim by questioning the assumption that reform benefits are dispersed and bear fruit only in the long term; on the contrary, scholars like Hellman (1998) and Schamis (1999) argue that benefits are concentrated in the short to medium term and that winners, fully aware of the benefits they would derive from full or partial economic reforms, organize themselves to either initiate reform (Schamis 1999) or to stall it at a particular point that provides maximum access to rent (Hellman 1998). According to this bottom-up approach, "...interests organize and capture the decision-making arenas to induce governments to withdraw from the economy (Schamis 1999, 265)." This revisionist vein explains why in some countries we see organized winners advancing economic reform and reaping its benefits—*whether those benefits come in the form of public goods or rents.*⁵ However, in this account winner interests translate directly into policy and there is no causal role for institutions.

The beneficiaries of recipient-providers need institutions to translate their preferences into policy outcomes. In many developing countries, and specifically in the two studied here, strong preferences for reform do not necessarily translate into economic reform. Many authoritarian rulers base their support upon disparate coalitions that contain a variety of factions with seriously conflicting policy preferences. The issue of economic reform results in intra-coalition conflict, and in these cases institutions with some degree of autonomy and insulation—that is, recipient-providers—are valuable weapons for whichever coalition member captures them. Williams (2002, 398) claims that institutional innovation can take place in one of three

⁵ Mobilization of winners might also occur from the top down. Gibson (1997) documents how the Peronist party under Menem in Argentina shifted its coalition base from the periphery to the metropole, actively courting urban businesses, such as Bunge y Born, that had traditionally opposed the party by appointing their executives to major economic ministries.

ways: rule-changing behavior, which alters policy procedures and organizational position in ways that enhance autonomy, agenda control, and ability to contest alternative policy proposals; instrument-creating behavior, which centralizes decision making authority in single-purpose units, alters organizational position and enhances autonomy, and displaces conflict over reform initiatives; and strategizing behavior, which alters institutional arrangements in ways that ensure future stream of preferred outcomes via most efficient expenditure of resources. “These tactics can change the position reformers occupy inside the bureaucracy and tip the balance of power decidedly in their favor,” he writes (398). The provision of aid to recipient-providers effects changes on all three fronts.

Recipient-providers are, more than anything, political devices. While aid makes the institution possible, it is the technocrats in the recipient-provider and their supporters in society who are the real players. Recipient-provider agendas usually emanate from a particular coalition member and could not be implemented in the absence of a parallel institution. These agendas must coincide to some degree with those of donors to secure external support, yet as Drake (1994, xviii) wisely notes, it is important not to overestimate the role of foreign advisers and technical assistance in general: “Most countries could have designed equivalent reforms without relying on advisers from abroad.” In some cases, recipient-providers allow reformers to safeguard their agendas from financial and bureaucratic sabotage, as well as provide them with technical and financial resources to draw up plans, implement, and monitor. In other cases like Jordan, rent-seekers are the beneficiaries of the recipient-provider, and the latter’s relative insulation and autonomy allows the beneficiaries to block out other groups competing for resources. It is, in fact, the nature of domestic politics that best explains why technical units predominate in Egypt and regional authorities and donor-providers are prevalent in Jordan.

In the mid-1980s, developing countries faced reduced access to foreign capital flows that they had relied upon in the past to supplement their large state budgets. This was a result of decreases in budget support coming from the Gulf and the imposition of neoliberal conditionality by public and private donors and lenders in the West. Although levels of U.S. aid remained relatively high in countries of geopolitical value, it was not sufficient to meet recipient budget requirements. This situation left ruling elites in Egypt and Jordan with two options.

The first option was to implement the economic reforms that other donors, lenders, and private investors were demanding. This has clearly been the path of Egypt, and to a much more limited extent, Jordan. Following the coalition restructuring under *infitah*, a contingent of reform beneficiaries was given increased access to the state and the policymaking apparatus of the National Democratic Party. However, as long as urban labor retained such a powerful position within the NDP coalition, the gains that private sector reformers could realize were limited due to the hesitancy of President Hosni Mubarak and the opposition of many of his advisers. It took a series of economic crises in the mid to late 1980s, as well as the rising problems of terrorism to convince President Mubarak that reform was necessary (Anonymous Interview, 2/20/2009). Since the mid-1990s, the NDP has elevated the relative importance of reformers within the coalition. Technical units have been valuable resources for technocrats and reform beneficiaries, helping them to formulate and implement reforms in a manner that is not politically destabilizing. Many of these reforms, particularly in the realm of fiscal policy, have allowed the

Egyptian state to raise adequate revenue to finance its own infrastructure and reducing its dependence on donor-providers.

The second option was to seek out new sources of ren. Unlike in Egypt, where a clear group of winners within the coalition stood to benefit from further economic reform, no such group existed in Jordan. The East Bank industrial elite was largely inward looking and benefited from close ties to the state, causing them to oppose reform. Offering smaller Palestinian merchants in the private sector the possibility to realize economic and possibility political gains through reform was politically out of the question to the old guard East Bankers, particularly the tribes. The Hashemites were thus deprived of any domestic partner that would support reform. While Jordan has implemented some economic reforms, such as requirements for joining the WTO and concluding an FTA with the U.S., these moves were extremely delayed. To the extent that these agreements have interrupted side-payments, the Hashemites have tapped new sources of private sector rent to satisfy their coalition. They have also continued to capitalize on the poor regional geopolitical situation to exploit traditional sources of external rent, such as U.S. budget support and donor-providers, particularly in the realm of infrastructure.

These private sector rents arise from two sources: (a) the strategic location of Jordan's Aqaba Port as a transport logistics node; and (b) Gulf capital that has been diverted from the West since 9/11 and from Beirut following the Israeli-Hizbullah conflict of Summer 2006. USAID has helped to supply the institutional change and innovation necessary for extracting these new rents through the provision of regional authorities. These institutions do not exist purely for rent-seeking purposes; they usually provide some sort of public good as well. They provide better regulation, lower taxes, and streamlined bureaucracy, which result in higher foreign capital flows. However, the benefits of these capital flows are not public; they are restricted to coalition members. Joint ventures with Gulf capital are courted at the highest levels and local partners are generally coalition members. Tax revenues on these investments go to Amman, where they support a public budget that continues to benefit tribesmen above all else. Similarly, transportation companies investing in Aqaba must enter into joint ventures with the state-owned Aqaba Development Corporation, thereby providing another source of government budget support.

Technical units and regional authorities have different organizational designs and outputs and are thus used in different political situations. Technical units are most prevalent in Egypt, where there is greater political impetus for economic reform at the national level; they have failed miserably in Jordan, where regional authorities are preferred because national-level reforms would be destabilizing. The geographically-contained nature of regional authorities better enables the Hashemites to harness the benefits they attract and funnel them to specific groups and individuals, while the provision of infrastructure by recipient-providers allows distributive arrangements to remain in place.

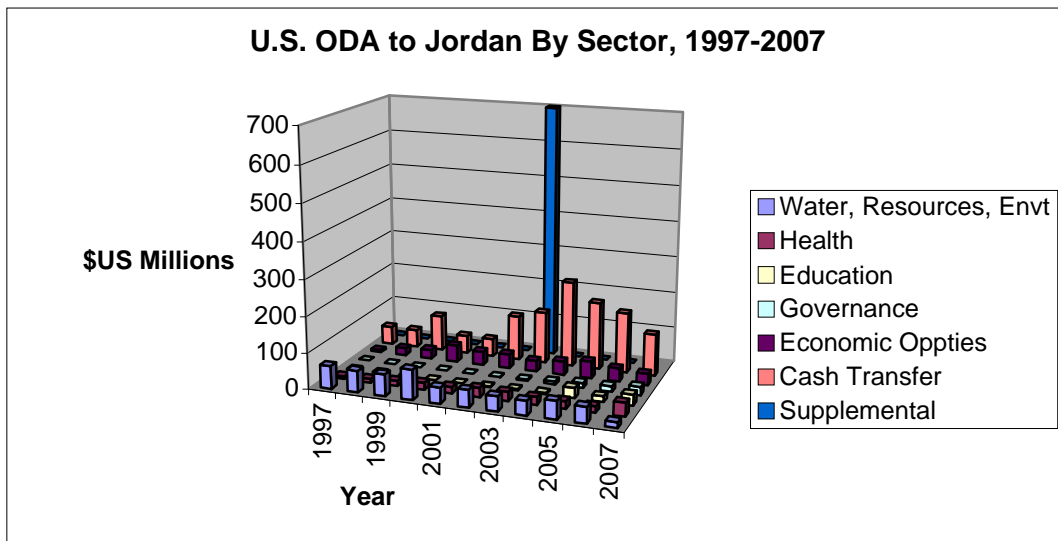
Regional Authorities and New Rents in Jordan

Following the economic crisis of 1989, both the Hashemites and their foreign patrons found themselves in a major dilemma. The reforms required by international financial institutions (IFIs) would require the country's slow, unqualified, and ill-performing institutions to be transformed into efficient, apolitical regulators that could ride the tide of international

markets and generate sustainable economic growth. Reforming these institutions would pose considerable economic and political risks. Worse, the Hashemites had spent over forty years alienating and weakening the majority-Palestinian private sector, thus denying themselves a pro-reform political ally and a viable economic replacement to the Transjordanian merchant-industrialists. The Hashemites thus continued to rely on the support of tribes and Transjordanian economic elite. The U.S. has provided the budget support and infrastructure that allows the Hashemites to maintain their tribal base, as well as constructing regional authorities that secure new sources of rent for the Transjordanian economic elite.

After concluding a peace treaty with Israel in 1994, the U.S. once again became Jordan’s major donor, though economic and military aid only really took off with the ascension of King Abdullah II in 1999. In the mid-1990s, bilateral aid was less important than U.S. leadership in IFIs such as the Paris Club (which forgave \$830 million and extended payments on \$2.2 billion of Jordan’s foreign debt through 1997); the IMF (which has continually allowed Jordan to sidestep conditionality); and the World Bank (which has provided several hundred million dollars in loans to implement IMF structural adjustment programs). Jordan’s designation as a Major Non-NATO Ally in 1996, complemented by \$560 million in arms assistance between 1994 and 1999, demonstrated American intentions to help preserve the Hashemite regime well into the future (Yom and Al Momani 2008, 49). By capitalizing on Jordan’s geostrategic relevance after 1989, the Hashemites have continued to attract external rents to fund coalition maintenance. The U.S. is a willing supplier, with one American official commenting, “The course of moderation brings rewards (Anonymous Interview, 4/5/2007).”

Figure 1



Source: USAID 2007, 2008.

U.S. bilateral economic aid to Jordan has increased substantially since 1999, mostly under the Cash Transfer Program. The Cash Transfer Program commenced in 1997 and accounts for the bulk of economic assistance in Jordan. Each spring, USAID and the Ministry of Planning agree on a set of twenty to thirty conditional precedents (CPs), all of which must be completed for the Jordanian government to receive the cash transfer for a given year. The program also

requires the Jordanian government to provide an equivalent amount of counterpart currency in Jordanian dinars, which is jointly programmed by USAID and the Ministry of Planning (Anonymous Interview, 1/25/2007). The cash transfer itself is used to pay down Jordan's foreign debt, yet it can be seen as a fungible source of budget support and therefore supporting general budget priorities.

The Cash Transfer provides two conduits by which USAID can infiltrate Jordan's budgeting process and influence policy: CPs and counterpart currency programming. CPs and counterpart currency programming, while never used to force reforms that could be destabilizing (i.e. that have no political support in the country), are used in the following situations (Anonymous Interviews, 1/25/2007, 3/4/2007, 3/5/2007):

1. To "expedite priorities," providing support for specific items on reform agendas of individual ministers that might face opposition from other cabinet members.
2. To force small changes in policy that hinder projects or overall agendas of different offices within USAID.
3. In rare cases, to encourage the adoption of politically sensitive reforms (by using a CP rather than a USAID project, the reform measure appears more homegrown).
4. In rare cases, to pursue U.S. national interests, such as eliminating commercial discrimination of U.S. exports and circumscribing the ability of Jordan's financial sector to serve as a venue for money laundering.
5. In rare cases, counterpart currency is used to provide services that it would be inappropriate in Jordan or possibly illegal under U.S. law for USAID itself to provide.

Many times CPs and counterpart currency programming require legal changes that must be passed by the Jordanian parliament. USAID stays away from the parliament, and relies on the Jordanian leadership (the King and the Council of Ministers) to effectively guide the legislation through (Anonymous Interviews, 2/1/2007, 3/4/2007, 4/5/2007). No CP appears to ever have been rejected by the parliament, which, while largely impotent and heavily skewed in favor of regime supporters, also serves as a venue for tribes to publicly voice their discontent at economic reforms and U.S. involvement (though it is important to note that many of the most demanding CPs, related to WTO accession and the FTA, were included between June 2001 and June 2003, when parliament was dismissed). No cash transfer appears to have ever been withheld. As one U.S. official claimed, "We want the government to have it [the cash transfer]," noting that certain reform measures, if pursued through the program would be "counterproductive (Anonymous Interview, 4/5/2007)."

In order to retain its coalitional basis of support under neoliberalism, the Hashemite regime has retained old institutional mechanisms of coalition maintenance where possible. Tribal demands for public employment and social security have not fundamentally changed since the Kingdom's inception. The majority of tribal side-payments, such as public employment and the selective provision of welfare benefits, have remained stubbornly resilient because the regime has been able to secure sufficient foreign aid in the form of budget support, as well as drawing on unregulated privatization proceeds. The government continued to provide a series of wage increases to public sector employees--in direct violation of Jordan's agreement with the IMF. By the mid-1990s, public sector hiring had increased by 10 percent while spending on wages and

salaries had grown by 70 percent (Pripstein Posusney 2003: 10-11). Between 1989 and 2001, expenditures on wages and salaries consistently constituted around 45 percent of the budget, and from 2001 to 2005, employee compensation grew by 6 percent. Military expenditures lingered between 26 and 28 percent of total expenditures (Mansur 2006). The government continues to provide additional welfare benefits to civil servants and military personnel (Baylouny 2008). Regime elites have also ensured that privatization will not threaten former public sector jobs. The 1999 privatization law stipulated that the government should retain the “golden share” by which it can still veto decisions made on the board of directors of any privatized company and in the selling of shares the government often stipulates that no employees can be dismissed within a defined period (El-Said 2002: 270). Continued public employment and direct compensation of public employees have selectively sheltered tribes from broader costs imposed by a value-added tax (VAT) and the removal of food subsidies, as well as the rising inflation that has come about after a second oil boom in 2001. These developments imposed costs on all consumers, but East Bankers were sheltered from the storm through other compensatory measures. Palestinians that do not enjoy a close relationship with the state do not have this safety net.

Despite continued flows of U.S. aid, the neoliberal agenda has resulted in some institutional changes relevant to the economic elite, particularly in the areas of direct subsidies, trade protectionism, and state ownership in joint ventures. Aside from their unwillingness to submit to a more progressive income tax structure, the Transjordanian economic elite has been remarkably more flexible than the tribes in modifying its demands in light of new constraints. With the assistance of the Hashemites and USAID, the merchant-industrial elite has sought out new modes of public-private partnerships that are permitted under Jordan’s international obligations, as well as secured a number of bilateral trading arrangements that deliver a steady stream of rents. Most changes affecting the merchant-industrial elite occurred in the wake of Jordan’s accession to the World Trade Organization (WTO) in 2000.⁶ These reforms hit at the very core of institutional side-payments to the merchant-industrial elite by reducing protectionism and eliminating monopolistic import rights.

The regime, heavily assisted by the U.S., has ameliorated these costs by three different institutional mechanisms. First, the Jordanian government has complemented its multilateral commitments under the WTO with a web of regional and bilateral trading agreements. The most prominent of these has been a Qualifying Industrial Zones (QIZs) agreement with the U.S. and Israel, by which Jordanian-Israeli goods that meet certain-value added requirements can be shipped to the U.S. duty-free. While most investors in QIZs are “footloose” Asian apparel firms, the individuals who control the zones are close to the regime and receive rent from industries located there (Moore and Schrank 2003; Kardoosh and Burgis 2006). The U.S. invasion and occupation of Iraq has also helped re-establish old trade links for key constituents in the Iraqi market, as well as opening new sources of rent. Overland trade routes and re-export opportunities, once reduced by U.N. sanctions, have re-opened with virtually no limits. Second, the government continues to procure goods and services from regime favorites. In 2002, the

⁶ Jordan’s committed average tariff rate is 21.6 percent, and customs tariffs must be reduced to 20 percent by 2010. Jordan committed to removing 139 measures in services, excluding market access, and 79 measures granting national treatment. Procedures by which import licenses were granted were first changed in 1997, and in 2003 import licenses were no longer necessary except for limited categories of goods relating to public safety, environment, natural resources, national security, public order, and morality (FEMISE Coordinators 2005: 66, 75).

public consumption expenditure amounted for more than 20 percent of aggregate disposable income (Kanaan 2005: 100). The procurement process is not based on fair competition for contracts and, as such, Jordan has not yet signed onto the WTO's General Procurement Agreement (GPA), as it would allow foreign firms to compete with Jordanian firms for government procurement on a competitive basis (Peters and Moore, forthcoming).

Third and finally, the regime has provided virtually guaranteed profits for select merchant-industrialists through political backing of real estate mega-projects in Amman, the Dead Sea, and the Aqaba Special Economic Zone (ASEZ). ASEZ sits on 375 square kilometers of territory in the south of Jordan, encompassing the country's only port, Aqaba, and the Wadi Rum nature reserve, and, after the Aqaba Special Economic Zone Law No. 32 was passed in August 2000, began functioning in early 2001. A USAID-sponsored regional authority, ASEZ offers investors significant tax breaks on improved land and income, world-class infrastructure, and a streamlined, autonomous bureaucracy in the form of the Aqaba Special Economic Zone Authority (ASEZA). The regime has provided security for investors by aggressively defending ASEZ/ASEZA and courting Gulf capital and the Social Security Corporation to partner with domestic investors. USAID has also been tremendously active in ASEZ, assisting in the provision of much-needed hydraulic infrastructure to support investment in tourism and the institutional capacity-building of ASEZA and its official developer, the Aqaba Development Corporation.

The idea to convert Aqaba into a special economic zone came about in 1999, after The Services Group (TSG) produced a study for USAID and the Aqaba Regional Authority recommending the creation of an autonomous authority in Aqaba that would have expanded jurisdiction and report directly to the Prime Minister (Kardoosh 2004, 12).⁷ Abdullah II's cabinet remained heavily divided over the TSG report, causing the King to move the debate to a new venue, his newly-created, twenty-member Economic Consultative Council (ECC). The ECC was staffed with young technocrats, many of whom would eventually become ministers and ambassadors. The ECC undertook the final stage of work on the ASEZ along with the king's ally in parliament on the issue, Ali Abul Ragheb, a former trade minister who headed the Financial Committee of the Lower House. When Prime Minister Abdel Raouf Rawabdeh opposed the plan, citing broader public fears over the rise of a "state within a state" and Aqaba's proximity to Israel, Abdullah replaced him as prime minister with Abul Ragheb. Despite additional concerns from Lower House deputies that the new authority would hire non-Aqabites at substantially higher salaries, the ASEZ law was passed through the parliament (Kardoosh 2004, 20).

Within a geographically-delineated area ASEZ serves two immediate purposes, the provision of governance reform and the administration of an investment incentives regime. ASEZ is governed by ASEZA, an autonomous regional authority that is headed by a six-member commission. A Chief Commissioner is in charge and reports directly to the Prime Minister, while five other commissioners preside over portfolios for infrastructure and service, administration and finance, economic development and investment, environment, and customs and revenue. ASEZA employees must take written entry exams, and commissioners receive salaries that are

⁷ Aqaba had previously been governed by three entities, the city municipality, the Aqaba governorate, and the Aqaba Regional Authority (ARA)--which was not a regional authority in practice as most decisions were taken from Amman. Under this regime, the port became one of the worst-ranked in the world.

about 80 percent higher than those of ministers in the central government (Anonymous Interview, 3/14/2007). ASEZA is vested with independent regulatory authority from the central government in all areas, with the exception of civil defense (the General Intelligence Directorate, or GID), health, and education. ASEZA employs about 30 different memoranda of understanding (MOUs) with different central government ministries that streamline the implementation of laws (Anonymous Interview, 3/14/2007).⁸ It is essentially a “government within a government (Kardoosh 2004; Anonymous Interview, 3/7/2007).”

ASEZA administers a special fiscal regime. There are no customs duties on imports into ASEZ. There is no social services tax, nor any taxes on land and buildings. A five percent tax rate is applied on all net business income, in contrast to the 35 percent rate for the rest of the country.⁹ A 7 percent sales tax is limited to the consumption of selected personal goods and hotel and restaurant services, by contrast to the 13 percent levied in the rest of the country (Kardoosh 2004, 2). ASEZ is very friendly to foreign investors, allowing 100 percent foreign ownership, no foreign currency restrictions, and full repatriation of profits. ASEZA has a one-stop-shop for licensing, provides streamlined labor and immigration procedures, and permits employers to use more than 70 percent foreign labor through special petition.

Drawing on these multiple incentives, the Aqaba Development Corporation (ADC) is mandated to develop ASEZ through building new and expanding existing infrastructure, creating business enablers for ASEZ, and managing or operating its key facilities. Initially, ASEZA was tasked with both improving regulation and attracting investment to ASEZ, a dual role that officials cited as “problematic.” ADC was created in December 2003 and formally launched in February 2004. After the split, all ports, the airport, and strategic commercial land were transferred from ASEZA to ADC. ADC’s primary purpose is attracting private capital for joint ventures in infrastructure and real estate. Aqaba’s potential for tourism has attracted a large amount of investment in real estate, which places high demands on infrastructure. Since neither Amman nor ASEZA has the funding to provide this infrastructure publicly, ADC is responsible for administering BOOT and BOT contracts to allow for private sector development of infrastructure. Outside of real estate and its associated infrastructure, most investors in ASEZ are seeking vertical integration in transport logistics, and ADC is charged with administering all contracts for port and airport expansion and improvement as well.

Although ADC is deemed a “private,” for-profit company by the Jordanian government, it is 100 percent government owned: half of it belongs to the central government, and the other half is owned by ASEZA (Anonymous Interview, 3/7/2007). ADC is a useful vehicle for privatizing many of the functions traditionally associated with the state, yet as a public entity with close ties to the Royal Court, ADC is a means for the regime to retain background influence over many of these new investments. In the case of joint ventures, ADC retains the “Golden Ticket,” or 26 percent of shares. This is not a blocking majority, but it allows ADC control over who sits on the board.¹⁰ ADC is also a conduit for other government investments in ASEZ,

⁸ MOUs are utilized in lieu of changing the language of the ASEZ law because the latter could result in another parliamentary battle.

⁹ There are exceptions to this rule for banking, insurance, and land transport activities.

¹⁰ ADC officials refused to supply information on its joint venture holdings. The 26% figure comes from an alternative source.

namely those from the Social Security Corporation (SSC). The SSC, in charge of about JD 4 billion in pension funds and prohibited from investing outside of the country, is a major investor in ASEZ, which has garnered it seats on company boards.¹¹

USAID has provided political, economic, and technical support for ASEZA to the extent that one Jordanian official deemed it “USAID’s baby (Anonymous Interview, 3/4/2007).” USAID funded the 1999 TSG study through the AMIR Program, then ran three successive technical assistance programs for ASEZA (Anonymous Interview, 3/7/2007). The first, the Aqaba Technical Assistance Support Project (ATASP, 2000-2004), provided initial technical support in drafting the ASEZ Law and had a “carte blanche” from the Jordanian government to set up ASEZA (Anonymous Interviews, 3/14/2007). The second, the Aqaba Zone Economic Mobilization Project (AZEM, 2004-2007), was tasked with the rationalization of ASEZA. AZEM built a planning and evaluation directorate in ASEZA, helping ASEZA to produce a specific plan with budget justifications. AZEM also worked on salary restructuring, which increased some salaries and ultimately will result in the reduction of workers through attrition, and helped ASEZA compile a study assessing Aqaba’s infrastructure needs. The third, the Aqaba Community and Economic Development Program (ACED, 2008-2013) works on the continued project of strengthening ASEZA and ADC, with an additional focus on cultivating support for ASEZ among native Aqabites that are largely excluded from the benefits in employment that ASEZ provides to more highly educated Ammanis and foreign investors. USAID officials are in Aqaba on a weekly basis and have a full knowledge of developments in ASEZ (Anonymous Interview, 3/14/2007).

The split between ADC and ASEZA was driven by USAID and the World Bank, and ADC was established through the Cash Transfer Program as a counterpart currency project. ADC used these funds to contract out for technical assistance, and the request for proposal was in fact drawn up in AZEM’s office (Anonymous Interview, 3/7/2007, 3/13/2007, 3/14/2007).¹² USAID continued to make use of the Cash Transfer Program to garner additional funding for ADC and ASEZA, as well as to carve out spheres of influence for them both. In 2004, USAID included CPs for completing a staffing plan and initiating a long-term plan for development for ADC; rationalizing customs within ASEZ to avoid overlap between ASEZA customs and that of the central government; and selecting a contractor to manage the port facility. As a counterpart currency project, the Jordanian government was required to commit JD 20 million to build capacity for ADC, upgrade the Aqaba container terminal, and provide infrastructural improvements in the area. In 2007, a CP required the Jordanian government to extend until 2013 the 2004-2008 MOU that divided ASEZ revenues equally between ASEZA and the central government (USAID 2009).

¹¹ The SSC’s presence is not only an asset to the regime, but also to private investors. If the SSC is engaged as an investor signifies government commitment to the project, and also makes it easier for other investors to obtain loans (Anonymous Interview, 3/13/2007).

¹² ADC ultimately settled on the American firm BearingPoint, which employed several former TSG employees who had participated in the 1999 study and ATASP

Backed by the support of the King and a small group of technocrats, USAID has been present at all levels of ASEZ. It provided funding and expertise for the study that devised the zone, then provided the technical and financial assistance that the King and his cohort needed to prevail over tribal opposition in the parliament. USAID projects devised the organizational structure of ASEZA and ADC and continued to support them through further organizational modifications and technical assistance, as well as securing additional funds for them in the Jordanian budget. Among ASEZ officials there is concern that “the weeds may grow back in” were USAID to cease its activities there (Anonymous Interview, 3/14/2007).

There is hope in the aid community that ASEZ may serve as a test case for reforms that could be undertaken at the national level in the future. Yet much of ASEZ’s success is still based upon the political support of the King and a cohort of advisers that has been increasingly marginalized due to tribal opposition. ASEZ was a top-down initiative that relied on a basis of support in the Royal Court (Anonymous Interview, 2/26/2007, 3/7/2007). The King allegedly saw ASEZ as a potential model for national-level reforms, as well as a second growth pole in the South, an important tribal area. Yet after Abdullah faced opposition from the tribes, especially those in the South for whom ASEZ was proclaimed to generate benefits, he advanced the idea through a cohesive group of advisors with backgrounds in the private sector. ASEZ continues to rely on this locus of support. ASEZA’s chief commissioners are all former ministers. Most notably, the third commissioner of ASEZA, Nader Dahabi (2004-2007), is a former Air Force general, Minister of Transportation, and Minister of Tourism. He is also the brother of Mohammed Dahabi, the head of the GID. In 2007, Dahabi left ASEZA to become Prime Minister. Any chief commissioner will be close to the Royal Court due to ASEZ’s importance to the King (Anonymous Interview, 3/14/2007). Even ADC relies on the King, who himself secured ASEZ’s four largest investments: the Tala Bay, Soraya, Ayla Oasis, and Marsa Zayed real estate and tourism projects. These four investments commit about \$16 billion out of the \$18 billion that has been invested in ASEZ to date (Anonymous Interview, 3/14/2007).

Furthermore, ASEZ is not a bastion of free-market liberalism; it is a vehicle that attracts alternative sources of rents for coalition members that have been hurt by economic reforms at the national level. ASEZ has been able to harness “a lot of money that was floating around after 2001 (Anonymous Interview, 3/14/2007)” and marshal it towards the two pillars of the coalition, the tribes and the Transjordanian economic elite. Following hostility of many Western governments to Arab capital after the September 11 attacks, many oil-rich investors and investment vehicles from the Gulf started investing closer to home, in countries like Lebanon, Syria, Egypt, and Jordan. Lebanon was the preferred choice, but after the Israeli incursion of Summer 2006 and the subsequent evacuation of the country, many Gulf residents used to vacationing in Lebanon started coming to Jordan, increasing the demand for high-end real estate in potential vacation destinations. Royal support for ASEZ and ASEZA’s relatively streamlined regulations, in addition to its seaside location, made Aqaba an attractive place to invest. Most investment in ASEZ is in fact Gulf capital invested in real estate and tourism.¹³

¹³ The initial plan for ASEZ designated 50 percent of the regional economy for tourism, 30 percent to services, and 20 percent for light industry. In 2009, tourism projects (particularly real estate) accounted for 60 percent of investment in ASEZ (AME 2/17/2009).

Rents for tribes come primarily through the increased tax revenues accrued by the central government from ASEZA. An explicit goal in ASEZA’s 2007-2010 Strategic Plan is to increase remittances to the Treasury while remaining fiscally viable (ASEZA 2007, 17). Under the ASEZ law, ASEZA is supposed to keep only 25 percent of revenues, sending the rest to Amman. From 2004 to 2008, an MOU between the central government and ASEZA allowed ASEZA to keep 50 percent of its revenues (Anonymous Interview, 3/14/2007). This MOU was subsequently extended until 2013. Since its inception, tax revenues from ASEZA have risen forty-fold from the 1990s average, result of increased investment and better enforcement, yet ASEZA’s contributions to central government revenues are less than half of a percent. USAID’s ACED Program is working with ASEZA to develop revenue targets in the future, and once investments in ASEZ are up and running, this figure could become much larger.

Table 1
ASEZA Revenues

Year	Total ASEZ Revenues (JD millions)	ASEZA Share (JD millions)	National Treasury Share (JD millions)	% Growth in ASEZA Revenues	ASEZA Revenues as % National Revenues
2001	8,518,742.59	2,584,930.69	5,933,811.90		0.36
2002	11,547,935.85	3,241,487.24	8,306,448.61	25.40	0.51
2003	13,034,901.56	4,337,997.73	8,696,903.83	33.83	0.52
2004	18,645,114.95	10,264,776.07	8,380,338.88	136.62	0.39
2005	25,385,851.86	12,645,012.08	12,740,839.78	23.19	0.50
2006	32,049,477.73	16,548,166.36	15,501,311.37	30.87	0.49
Total	109,182,024.55	49,622,370.17	59,559,654.37		0.36

Source: ASEZA 2007, Central Bank of Jordan 2007.

ASEZA is also not the only source of government revenue within ASEZ. ADC, which accrues profit from its contracts and joint ventures in ASEZ, most of which are derived from transportation rents, can also be taxed by the central government. Additionally, government entities like the SSC reap profit from their investments in the zone. In the future, if the regime is still compelled to maintain distributive institutions at the national level, such as public employment, revenues from ASEZ could serve as a lifeline that maintains these institutions—and regime stability.

The Transjordanian economic elite benefits from preferential access to joint ventures in ASEZ. In general, this elite has diversified away from industry towards real estate, either through joint ventures with Gulf partners or through serving as local middlemen for Gulf investment vehicles themselves.¹⁴ The regime has ensured that this elite has preferential access to these ventures in ASEZ. One day after ASEZ’s official launch on May 17, 2001, a closed-door meeting was held for fifty people, including Bassem Awadallah (Chief of the Economic Unit at the Royal Court, member of the ECC, and later Minister of Planning and International

¹⁴ The Jordanian military has adopted a similar tactic in Amman, where it has formed a joint venture with Saudi Oger called “Mawared.” Mawared is now developing the Abdali Project, an \$800 million residential and commercial space in downtown Amman.

Cooperation), the ASEZA commissioners, and local, regional, and international investors (Kardoosh 2004, 23). Today Jordanian investors in Aqaba include Zara Holdings (run by the Talhouni family), Jordan Dubai Capital (whose CEO is Samir Rifai), and Saraya (an arm of Saudi Oger, but whose general manager is Shadi Majali). Table 2 provides a list of all major investments in ASEZ, demonstrating (1) the prevalence of real estate and transport logistics; and (2) the pairing of ADC, powerful Transjordanian investors, and Gulf capital.

Table 2
Major Investments in ASEZ

Project Name	Description	Investors	Value
Ayla Oasis	Commercial and residential real estate		\$1.4 billion
Stores and Industries Complex/ Northern Project	Commercial and residential real estate	National Kuwaiti Real Estate Company	\$37 million
Saraya	Commercial and residential real estate	Saraya Aqaba (Saudi Oger), Social Security Corporation, EFB Brokerage and Investment Company, Jordan Dubai Capital, Arab Bank, ADC, individual investors	\$ 680 million
Marsa Zayed	Commercial and residential real estate	Al Maabar Investments (UAE: Mubadala, Al Dar Properties, Sorouh Real Estate, Reem International, Al Qudra Holdings)	\$10 billion
Horizon	Commercial and residential real estate	Horizon Development Holdings	\$5 billion
Aqaba Project	Commercial real estate	Al-Kurdi Group	JD 210 million
Residential Village	Commercial real estate	Al Bdad Group	JD 5 million
Aqaba National Real Estate Project Company	Commercial real estate	ADC, National Real Estate Company (Kuwait)	\$36 million
Aqaba Center Project	Commercial real estate and services	Talal Abu Ghazaleh	JD 10 million
Aqaba International School	Education	ADC, Global Education Management Systems	
Holiday Inn Aqaba	Hotel		\$28 million
Movenpick Aqaba	Hotel	Zara Holdings	
Intercontinental	Hotel		\$63 million
JW Marriott	Hotel		\$52 million
Domina Inn	Hotel		\$33 million
Red Sea Resort	Hotel		\$75 million
Kempinski	Hotel		\$31 million

			million
Aqaba Airports Company	Infrastructure: Airport expansion and maintenance	ADC	
Al-Qasaba	Residential real estate	ADC, Arab Assembly for Investments Company	JD 100 million
Yamnia Heights	Residential real estate	Mada'in Al Aqaba, ADC	\$90 million
Tala Bay	Residential real estate	Jordan Projects for Tourism Development (Abujaber Investments, Orascom Projects for Touristic Development, Zara Investments, the Social Security Corporation, and Al Haqq Establishment)	\$500 million
Tala Hills	Residential real estate		\$35 million
Air Cargo Temrinal	Transport logistics: 15-year BOT for development, management, and operation of common use air cargo services	ADC, NAS	\$4 million
Container Logistics Village	Transport logistics: container storage facilities	Kuwaiti Public Stores Company, OPM (Singapore), Kawar	JD 42 million
Container Port	Transport logistics: development and management of the container port for 25 years	I.B. Mueller	JD 500 million
Port of Aqaba	Transport logistics: development of Port of Aqaba	Lamalco (Emirati), Jordan Marine Lines, ADC	JD 16 million
King Hussein Airport	Transport logistics: management contract		
Aqaba Port Marine Services	Transport services: 15-year joint venture agreement to manage, operate, and equip marine services assets	ADC, Lamnalco (UAE)	
Baddad Aviation	Transport services: ADC leases land to construct buildings and hangars for aircraft maintenance	ADC, Baddad Group	\$40 million

Source: ASEZA, 2009.

Technical Units and Economic Reform in Egypt

To meet Paris Club requirements for forgiveness on about \$21 billion in external debt, in 1991 Egypt signed into a second agreement with the IMF whereby the public deficit would be reduced to 6 percent of GDP by 1993; a sales tax would be instituted; a uniform market exchange rate imposed; and the government's guaranteed employment scheme discarded. Mubarak symbolically announced the conclusion of the IMF agreement during his 1991 May Day speech to organized labor (Waterbury 1993, 143). The government also announced its intention to privatize 314 SOEs and 23 joint venture banks (USAID 1998, 14). Two more

agreements with the IMF were negotiated in 1993 and 1996 under more stringent conditionality, and Egypt acceded to the WTO in 1995.

Egypt's first wave of economic reforms peaked in the mid-1990s. In 1992, Law 95 empowered the Capital Market Authority to act as the regulator of the market and provided a framework for the existence of brokerage firms, mutual funds, portfolio managers, and the issuance of corporate bonds. In 1994, the maximum tariff rate was lowered from 80 to 70 percent and continued to be lowered until it reached 40 percent in 1998 (Chemonics 2004). One hundred and ninety-nine SOEs were sold or partially sold between 1993 and 2004, many of which were bought up at rock-bottom prices by well-connected businessmen within the NDP (Sfakianakis 2004, 85-86). By 1999, 105 of the 314 Law 203 companies had been privatized. In 1998, the government passed Law 155, which allowed for the privatization of public sector banks--an important move, since the four state-owned banks (Banque Misr, National Bank of Egypt, Banque du Caire, and Bank of Alexandria) held 60 percent of capital in the commercial banking sector and a large number of non-performing loans (NPLs) taken out by state-owned enterprises (SOEs), joint ventures, and private sector businessmen close to the regime (Chemonics 2004). That same year, the government passed Law 156, which allowed for privatization of public sector insurance companies.

Much of the impetus for the market liberalization of the mid-1990s arose from a group of reformers that concentrated their activities formally at the American Chamber of Commerce in Egypt, and more informally, at the Gezira Sporting Club in downtown Cairo (Anonymous Interview, 2/20/2009). This group was composed of three distinct factions. The first was a small contingent of technocrats led by Youssef Boutros Ghali, a former IMF economist educated at MIT, and his longstanding deputy, Mahmoud Mohieddin. Today, Boutros Ghali is the longest-lasting individual in the Egyptian cabinet, having held almost every major portfolio since the early 1990s.¹⁵ The second group was composed of private sector businessmen, often contractors, who had benefited from collusive ties to the regime. They wanted to buy up more SOEs at low prices, as well as increased access to foreign capital. This group is exemplified by Ahmed 'Ezz, the notorious monopolist and steel magnate, NDP member, and Chairman of the Planning and Budget Committee of the People's Assembly. The third group was composed of a new business class that was not closely linked to the regime and sought to diversify into global markets. The exemplar is the Sawiris family, which heads the Orascom conglomerate in tourism, real estate, and banking.¹⁶ These two categories of business interests are the extension of the *infitah* class generated under Sadat. Their self-interest coincides, for the most part, with the economic ideology embodied in technocrats like Boutros Ghali, although the likes of 'Ezz are in favor of less transparency and more protectionism.

In the mid-1990s, the U.S. mission had two priorities in Egypt, reforming the economy and improving internal security after a spate of terrorist attacks. At this time, USAID started to

¹⁵ Boutros Ghali, a member of a prominent Coptic family, was allegedly cherry-picked from the IMF by the regime and brought in first as a high-level advisor to the Prime Minister and the Governor of the Central Bank of Egypt (1986-1993). Boutros Ghali has been Minister of State for the Council of Ministers and Minister for International Cooperation (1993-1996), Minister of State for Economic Affairs (1996-1997), Minister of Economy and Foreign Trade (1997-2001), Minister of Foreign Trade (2001-2004), and Minister of Finance (2004-present).

¹⁶ At one point, Samih Sawiris, the head of the real estate division, installed thumbprint recognition in his office because he was being so closely monitored (Anonymous Interview 2/20/2009).

develop a close relationship with this pro-reform group through its relationship with AmCham and routine contact with Boutros Ghali in his ministerial capacity (among USAID personnel, Boutros Ghali is fondly called “YBG”). In 1994, the U.S. initiated the Gore-Mubarak Partnership, which entailed high-level meetings between Vice President Al Gore and Mubarak, as well as a U.S.-Egypt Business Council, which was modeled on the successful Russia-U.S. Economic Commission and contained members from the American and Egyptian private sectors.

Since the mid-1990s, USAID has performed a balancing act between supporting this reform group and not doing harm to institutions that benefit the regime’s other coalition member, urban labor. While providing small amounts of project assistance in privatization of SOEs, most of USAID’s reform efforts have focused on private sector development and regulatory reform within the trade and financial sectors. USAID does not touch upon the issue of civil service reform. To the extent that USAID has been involved in the privatization process, it has encouraged the Egyptian government to use privatization proceeds to provide for potentially displaced workers. In the mid-1990s, the White House intervened in IMF and World Bank negotiations to appeal for weaker conditionality.¹⁷ These actions are consistent with USAID’s history of providing assistance to the private sector while also allowing a large public sector to coexist alongside of it.

The privatization process slowed after 1998. Mubarak, initially enthusiastic about the economic reform process as a means to FDI, became hesitant when FDI was not forthcoming and SOE sale started to taper off.¹⁸ Then the East Asian financial crisis hit, as did Mubarak’s cognizance of corruption and the rise of the Mafia resulting from economic reform in Eastern Europe and Russia (Anonymous Interviews, 1/27/2008, 2/20/2009). Despite the lack of political impetus between 1998 and 2004 and the dissolution of the Gore-Mubarak initiatives, the U.S. continued to provide piecemeal support for economic reform, albeit in reduced levels. In 1998, following the departure of Ambassador Edward Walker, who had devised the Gore-Mubarak initiative, the U.S. and Egypt agreed to reduce economic aid by 10 percent every five years, halving the annual allocation of \$815 million by 2009 but leaving the roughly \$1.2 billion in annual military aid intact.¹⁹

U.S. economic aid was delivered through three key activities. The first of these was raising the profile of the existing cash transfer by turning it into a series of multi-year programs, Sector Policy Reform I, II, and III (SPR, 1992-1994, 1995-1997, 1996-1998); Development Support Program I and II (DSP, 1999-2002, 2001-2007).²⁰ Each program accounted for about

¹⁷ An individual close to the process claimed, “The IMF used a purely macroeconomic framework that did not consider popular opinion and the possibility of revolution (Anonymous Interview, 2/20/2009).”

¹⁸ The best SOEs had already been privatized, and by 2000, the GOE had privatized only 29 percent of SOEs (IBM Consulting 2004, 4, 17).

¹⁹ Various reasons have been provided for this reduction. The official U.S. stance is that Egypt had managed to wean itself of its dependence on aid, and that the U.S.-Egypt relationship would move from “aid to trade.” Yet in 1998, when economic reforms were faltering, this hardly seemed to be the case. The alternative explanation is that in 1997, Israeli Prime Minister Benjamin Netanyahu requested a gradual phasing out of economic aid, and the House Appropriations Committee arranged an agreement by which the balance with Israel would be maintained 3-2 and Egyptian economic aid would be reduced at 5 percent per year while military would remain constant. The Egyptians, most concerned about maintaining their military aid, took the deal, which was never formalized into legislation (Anonymous Interviews, 5/13/2008, 2/20/2009).

²⁰ For an excellent overview of each program and its associated benchmarks see Salim (2006).

\$200 million annually and contained numerous reform “benchmarks” that had to be achieved.²¹ Unlike in Jordan, cash transfers are made on a per-benchmark basis. Twenty-five percent of the transfer must be used to pay down foreign debt, and the remainder must be used to import American commodities.²² The sale of these commodities generates local currency, which accumulates in a special account at the Central Bank of Egypt under the jurisdiction of the Ministry of International Cooperation. This account is used for general budget support for the Ministry of Finance, sectoral budget support as determined by the Ministry of International Cooperation, and USAID-Egypt’s operating expenses (GAO 2005, 8).

As in Jordan, benchmarks in Egypt were used to push through reforms that had some degree of political support in the cabinet and elsewhere, but which may not have come to fruition without the technical assistance and heightened importance brought about by their attachment to U.S. aid. The final report for DSP I (Chemonics 2004, 13) claims

To support a developmentally important reform that has little or no support within the government and is highly unlikely to be achieved wastes leverage. Similarly, using cash grant funding to encourage a government to implement a reform that is likely to be put in place anyway wastes valuable resources. The objective is to focus on those reforms that are significant and have both support and opposition within the government, and then use the availability of cash grant financing to strengthen the ability of the reformers to move the policy change through the government.

Yet unlike in Jordan, where USAID has made all CPs public since 2004, the Government of Egypt does not want USAID to publicize benchmarks (Anonymous Interview, 5/6/2007).

One USAID official refers to the cash transfer benchmarks from 1992 to 2005 as having a “Chinese menu approach.” By 2005, the financial sector accounted for 32 percent of benchmarks (\$585 million); the trade sector 24 percent; the industrial sector 15 percent; environmental protection 9 percent; and the fiscal sector 7 percent. In November 2002, Deputy Assistant Secretary of State Elizabeth Cheney and her adviser, King Mallory III, recommended that DSP II be renegotiated to have an exclusive focus on financial sector reform. This “Financial Sector MOU” would require the privatization of a state-owned bank and comprehensive auditing of the accounts of the public sector banks. These provisions were extremely controversial due to the quantity of NPLs that would have to be dealt with before privatization could occur, and the fact that CBE’s records of bank holdings would no doubt differ from any audit conducted according to international best practice. Negotiations for the Financial Sector MOU started in March 2003 and dragged on throughout the year (Anonymous Interviews, 5/9/2007, 12/11/2007).

²¹ These are very similar to Jordan’s conditional precedents, yet the term “benchmark” is used because the Egyptian government’s official position is to reject “conditionality.” The Egyptian government feels that the term “benchmark” is reflective of progress in a home-grown reform effort, not donor-imposed policy measures (Anonymous Interview, 1/27/2008). The Department of State has in the past authorized cash transfer funds to be released to the Egyptian government without completion of benchmarks. Similarly, the DOS has refused to release funds in times of geopolitical tension between the U.S. and Egypt, claiming that benchmarks have not been met (this is the case at present). (Anonymous E-mail Correspondence, 6/10/2008).

²² For the SPRs, the cash transfer went directly to the implementing ministries. For the DSPs, the cash went to the Ministry of International Cooperation, which transferred the bulk of the cash to the Ministry of Finance for budget support (Anonymous Interview, 12/4/2007).

Second, since 1997, USAID has facilitated the implementation of benchmarks by providing massive, indefinite quantity contract (IQC) projects to accompany each cash transfer. The Technical Assistance to Support the Reform Activities of the Government of Egypt and Provide Management Activities Project I (TAPR I) lasted from 1997 to 2004. Implemented by Chemonics International, TAPR I's mandate was to assist in the implementation of DSP I benchmarks.²³ TAPR I provided DSP I approval, monitoring, and verification, as well as short-term technical assistance to support DSP I policy reforms. These benchmarks included privatization of 34 Law 203 companies (joint ventures); progress in plans to privatize public sector banks and insurance companies; and developing the domestic debt market. Starting in 2005, the TAPR II project, run by BearingPoint, was charged with helping to implement DSP II, as well as to provide additional technical assistance for other policy reforms.

The third effort was supporting reformist ministers in developing and implementing economic reforms through the support of technical units in leading economic ministries. The chief difficulty that reformist ministers and the donors supporting their initiatives encountered was a lack of technical capacity in Egyptian ministries to implement liberal market reforms. Civil service reform was clearly not an option, as it would be politically destabilizing and would only yield the benefits of implementation in the long run. As Minister of International Cooperation, Boutros Ghali used funds from the UNDP to create "technical units" within his ministry to implement reforms. "Here started the parallel ministry. Leave the rest to drink their coffee, read the newspaper, and catch the bus before 1 o'clock (Anonymous Interview, 12/12/2007)." Although functionally technical units may contain a variety of experts disbursed throughout the ministry, technical units are formally distinct from the rest of the ministry. Under Egyptian Law, technical units are classified under Door Three of the budget, which frees them from regular civil service hiring procedures (and thus can hire employees at higher salaries) and auditing by the Central Organization for Administrative Development (COAD) (Anonymous Interviews, 2/11/2008, 2/14/2008). Technical unit experts are not considered donor employees, but ministry staff--just not career staff. After Boutros Ghali initiated the practice of creating technical units at MIC, other ministries started adopting the practice.

USAID initially opposed the use of technical units, essentially viewing them as PIUs and therefore unsustainable. In response, USAID-Egypt developed a new mechanism using Implementation Letter Mechanisms (ILMs) by which the technical experts it funded could contribute to the institution in a more sustainable fashion.²⁴ ILMs, which are unique to Egypt, are funded out of U.S. appropriated dollars, not counterpart currency, and provide individual ministries with financial assistance for limited-term staff positions, subcontracts for services, and commodity procurement. Although ILMs would provide some statement of work (SOW) for experts, experts financed by ILMs could also be committed to regular ministry tasks. These

²³ Most IQCs are multi-country and employ several different contractors to fulfill on-call task orders; TAPR is unique in this aspect (Anonymous Interview, 5/10/2007).

²⁴ The process for ILs is as follows. First, the Egyptian ministry requesting support provides USAID with a budget, workplan, and request for assistance. Second, USAID agrees with at least part of the request. Third, if this is the first IL for a ministry, USAID and the ministry have a dialogue about management, and USAID may ask for procedures manuals to be put in place to ensure proper accounting. Fourth, USAID's Financial Management Office certifies the ministry. Fifth, USAID's Trade and Investment Office (TIO) prepares the rationale for the grant and clears it with the USAID-Egypt Mission Director. Sixth, the head of TIO signs the IL. Finally, a USAID technical officer will monitor the implementation of the IL (Anonymous E-mail, 6/3/2008).

experts could draw upon procured items and services also included in the contract. ILMs, therefore, do not create new bureaucratic units purely for project implementation, but allow ministries to hire qualified employees at market competitive rates, as well as anything they need to buy.²⁵ These experts tend to renew contracts with their ministries; they usually stay or about five years, then return to employment in the Gulf (Anonymous Interview, 2/18/2008; Anonymous E-mail, 6/3/2008).²⁶ Information on ILMs is not publicly available through USAID or any Egyptian ministries. The subject of salary scales is particularly controversial given the small incomes of regular civil servants. One respondent noted, “If the size of expert salaries were to become public through the auditing process, this could be really explosive (Anonymous Interview, 12/11/2007).”

After a major cabinet reshuffle in July 2004, the use of ILMs, the cash transfer, and accompanying technical assistance aligned to empower Egyptian reformers in effecting major changes in the financial sector and fiscal policy. The new cabinet included fourteen new members, most notably:

1. Prime Minister: Ahmed Nazif, an engineer, former businessman, and former Minister of Communication and Information.
2. Minister of Finance: Youssef Boutros Ghali.
3. Minister of Investment:²⁷ Mahmoud Mohieddin .
4. Minister of Industry and Trade: Rachid Mohammed Rachid, a businessman and former president of Unilever North Africa, Middle East, and Turkey.
5. Minister of Transportation: Mohammed Mansour of the Mansour Group, which is the distributor for GM, Caterpillar, Microsoft, Compaq, as well as the owner of the McDonald’s franchise in Egypt and a partner in the Mansour-Maghraby Investment and Development Company (MMID).
6. Central Bank Governor: Farouk Abd El Baky El Okdah, a Wharton-educated economist, former Chairman and CEO of the National Bank of Egypt, and former Bank of New York Vice President for the Middle East.

This new cabinet contained the exemplars of the pro-reform coalition that had been in moratorium since 1998. This time the coalition was backed by Gamal Mubarak, son of Hosni and heir apparent to the Egyptian presidency, who had returned from a stint as an investment banker in London during the mid-1990s and was given a senior post within the NDP. When he became head of the NDP Policies Secretariat in 2002, Gamal continued to ally himself with the pro-reform business community, distancing himself from his father’s cohort of generals and crony capitalists (Weaver 2003; Collombier 2007; Cook 2009). Reformist technocrats, such as Boutros Ghali (dubbed “Gamal’s favorite economist”), and business magnates-turned-ministers are the new face of the NDP (Anonymous Interviews, 3/25/2008, 4/14/2008). Boutros Ghali is considered the most forceful reformer in the government (Anonymous Interview, 5/10/2007).

²⁵ Salaries are determined individually by ministry, and those at the Central Bank and the Ministry of Investment are said to be the highest (Anonymous Interview, 2/11/2008).

²⁶ The ministry in question initially draws on an equivalent amount of Egyptian government funds, which USAID will only replenish if experts achieve at least the benchmarks set out in the ILM’s SOW; USAID is thus able to foster efficient use of ILMs (Anonymous Interview, 2/11/2008)

²⁷ The Ministry of Investment was created in 2004 to serve as a uniform regulatory body for all non-bank financial institutional in Egypt.

The new cabinet was appointed just as another economic crisis loomed. Between 2000 and 2003, annual GDP growth was barely 3 percent annually. Industrial growth had slowed to 2 percent annually, with FDI levels at less than \$500 million (Rachid 2007). In 2004, the deficit was 8.3 percent of GDP (Ramalho 2007, 34). In 2004, tariffs were still high, and a number of non-tariffs barriers were posed by Egyptian customs. Twenty-six approvals were required to release goods from customs, and clearance could take twenty days or more. There were a high number of disputes and customs revenue was low. The Egyptian extractive apparatus was not exploiting many good opportunities for revenue collection. In 2004, only 7 percent of Egypt's urban properties were registered, leaving an estimated \$241 billion in properties untaxed--this was fifty-five times the amount of FDI in Egypt and 30 times the value of the Cairo Alexandria Stock Exchange (Haidar 2008). Thirty-seven percent of the workforce was in the informal sector, while many had been able to secure complex sets of tax holidays and exemptions from personal and corporate income tax; tax evasion was the norm (Ramalho 2007, 34). State-owned banks contained the majority of capital in the banking sector, yet also presided over large portfolios of NPLs and were reticent to lend to individuals without personal connections and required 100 percent collateral. It was common practice for heads of these banks, which were poorly paid, to charge a 10 percent commission on all loans to supplement their incomes (Anonymous Interviews, 9/15/2007, 12/12/2007).

The most important reforms of the Nazif government have taken place in the areas of trade policy, the financial sector, and tax policy. All three of these areas, particularly implementing key components of corporate tax policy, implementing customs reform and lowering tariffs, and privatizing a state-owned bank, were especially sensitive and had constituted failed benchmarks under DSP I.

The three originators of reform have largely been Boutros Ghali's Ministry of Finance, Mohieddin's Ministry of Investment, and Okdah's Central Bank. In August 2004, Boutros Ghali requested donor assistance in preparing a draft corporate and income tax law, which was subsequently passed by the Council of Ministers in November 2004 and the parliament in June 2005. The tax law reduced exemptions and holidays, reduced the corporate profit tax to 20 percent, and set the highest personal tax rate at 20 percent, as well as instituting a policy of self-assessment and amnesty for previous tax evaders. Overall tax revenue has since increased from 7 to 9 percent of GDP, with return filing increasing by 50 percent and rising income tax revenues (Ramalho 2007, 34-36). Along with the Ministry of Justice and the Property Tax Authority, the Ministry of Investment and the Ministry of Finance have worked to decrease property registration fees and streamline the registration process, resulting in an increase in property registration revenues from \$145 million to \$201 million in six months (Haidar 2008). Most notably, the government submitted to the auditing of the four state-owned banks according to international best practice, and in 2006 privatized the Bank of Alexandria to an Italian bank for \$1.6 billion. In 2007 the government announced that it would privatize up to 80 percent of shares in Banque du Caire, but closed the bid indefinitely in 2008 after bidders did not surpass an alleged \$1.6 billion reserve figure. Both privatization efforts were carried out amidst tremendous parliamentary opposition.

As Minister of Industry and Trade, Rachid has faced greater criticism from observers, who note that reforms propagated by his ministry have been fewer and less significant than those pursued by the Ministry of Finance and Investment. However, reforms in the financial sector and tax code have a larger set of winners, making work for Boutros Ghali, Mohieddin, and Okdah easier. Facing immense opposition from protected industries, Rachid was not able to lower tariffs, but he did succeed in customs reform. Between 2004 and 2007, inspections and customs procedures were simplified through an Electronic Data Interchange, tariff bands were reduced from 27 to 6 rates, additional duties and fees were eliminated, and a one-stop-shop was established at the General Organization for Export and Import Control. In 2007, the time required for customs clearance was reduced to a single day. By streamlining customs, Rachid effectively eliminated non-tariff barriers by reducing storage time and costs, resulting in a 15 percent decrease in import prices and a 17 percent increase in export margins (Rachid 2007).

These reforms required a significant amount of technical expertise, as well as political backing. Readyng banks for privatization required significant work behind the scenes to organize accounts, settle or transfer NPLs, and retire redundant employees. Backed by the political support of Gamal Mubarak, the reformist ministers in the Nazif cabinet have used technical units, the most important and prolific of which are US-financed ILMs, to study, devise, and implement major economic reforms. These technical units are supported by the open-order TAPR II project, while the technical units' jurisdiction in particular sectors has been defended by benchmarks in the cash transfer program.

In 2007, American ILMs financed the salaries of thirty-one staff at the Central Bank in the Monetary Policy and Banking Supervisory Units, including all of the sub-governors; fourteen senior advisers within the Advisory Monitoring Unit at the Ministry of Finance; thirty to thirty-two experts at the Ministry of Investment (distributed primarily among the Capital Markets, Insurance, and Mortgage authorities); and seven to eight staff at the Ministry of Industry and Trade. In 2007, USAID inducted a new ILM called "Iraada (wealth)" with the Ministry of Investment whereby ten of the sixteen ministries in the productive sector would be permitted to hire up to 10 individuals through ILMs for the purpose of conducting an inventory and review of all existing laws and regulations (Anonymous Interviews, 5/10/2007, 12/4/2007, 12/11/2007, 12/24/2007). Along with additional units financed by the UNDP, these units are those that have been generating reform legislation. One respondent claimed, "It may seem strange to an American, but there are employees at [my ministry] that cannot operate a computer. This is the only way to get things done. These are the people who do all of the work that has been done (Anonymous Interview, 2/20/2008)."

Many times technical units required additional expertise or to shift the burden of the workload elsewhere. In those cases they have been able to rely on the TAPR II project. Technical units are the primary counterparts in the Egyptian government for TAPR II. Ministers and their officials at the sub-cabinet level appreciate TAPR II's flexibility. Boutros Ghali, for instance, is "very demanding" and in contact with TAPR II almost daily, and fiscal policy assistance has been a central task of TAPR II (Anonymous Interviews, 5/9/2007, 12/12/2007). TAPR II has been involved in devising all of major economic reforms since 2004. Within the realm of trade, it completed drafting of the new Customs Law and supported feasibility studies within the Trade Policy Analysis Unit at MTI. In the financial sector, TAPR II assisted the CBE in a review of all

traded instruments and current operational processes, devising a human resources strategy, and the institution of risk controls and budget recommendations, as well as providing support for the establishment of the Egyptian Banking Institute and the Egyptian Insurance Supervisory Authority. Within the realm of extraction, TAPR II reviewed and commented on regulations for the Income Tax Law, drafted the framework for the Property Tax Law, and devised proposals for the Tax Policy Advice Unit and the SOE Governance Unit at the Ministry of Finance. It also drafted documents to support the institution of the Treasury Single Account System (TSA) in 2006 and provided advice to the TSA Task Force, and assisted the Public Private Partnership Unit at the Ministry of Finance (BearingPoint 2007).

TAPR II is also key to implementing many of the policies emanating from experts within the technical units. If implemented through the regular bureaucracy these reforms could be sabotaged. Within the realm of customs, TAPR II implemented a new Code of Conduct, the first group of Modern Customs Centers and Integrated Logistics Centers, and a new customs organizational structure. In the area of tax administration, TAPR II implemented an Audit Selection System for the Income Tax Department, trained fifteen work teams to implement the new tax authority, and implemented Phase II of the integration of the new tax administration. Future tasks will include Implementing Phase III (operationalizing the new organization, managing staff migration, and upgrading automated systems), implementing the framework for the new value-added tax, and implementing a new Micro and Small Taxpayer regime (BearingPoint 2007).

Technical units have another basis of support in the cash transfer program, which utilizes benchmarks to carve out spheres of influence for them and arm reformist technocrats with “political coverage” in the People’s Assembly. Before the Financial Sector MOU, the most frequent users of benchmarks in this manner were Boutros Ghali and Mohieddin, who banked on benchmarks in DSP I and II. However, the Financial Sector MOU focused primarily on carving out spheres of influence for reformers in the financial system, particularly the Central Bank of Egypt. In 2004, professional, private sector bankers with substantial experience in the Gulf replaced the existing heads of the Central Bank and the four state-owned banks, and the Central Bank, now independent, started implementing major financial sector reforms. To support these new technocrats, USAID set up two technical units in the CBE, then used the Financial Sector MOU to set aside work orders for these new institutions and to provide political capital for these reforms by attaching a specific dollar amount to each. The MOU contains the following benchmarks (“Memorandum of Understanding”):

Item 1: \$25 million

- Establishment of a monetary policy unit, a foreign exchange dealing system and foreign exchange management unit, and an NPL management unit within the CBE responsible for setting a national policy of dealing with NPLs, setting up an NPL data base, monitoring recovery efforts, and introducing an arbitration/conciliation mechanism for NPLs.
- Hiring of required competent advisors.
- Introduction of an optional early retirement policy and compensation scheme for the CBE.

Item 2: \$25 million

- Implementation of the Primary dealer system.
- Initiation of trading of Government bonds off the Stock Exchange in an open market where buyers and sellers may directly trade.
- Establishing the legal status and launching the operation of Repurchase Agreements for Government securities consistent with international best practices

Item 3a: \$100 million

- Audit of the four largest state-owned banks by an internationally-recognized impartial institution in accordance with standards set by the International Accounting Standards Board (IASB).
- Divestment of all GOE shares in the four largest joint venture banks

Item 3b: \$150 million

- GOE concludes privatization of the candidate bank

Item 3c: \$200 million

- The private sector banks share of new loans made in the banking system during the previous calendar year shall be equal to at least 62.5%.

Item 3d: \$225 million

- The share of non-performing loans as a proportion of all loans in the banking system shall be reduced by 50 percent from the baseline level determined by the initial audit referenced in benchmark one above and the annual audits of private sector banks.
- The cash recovery on non-performing loans equals at least 20 percent of the book value of NPLs to be disposed of under the previous benchmark.

Items 4 and 5: \$50 million

- Issuance of implementing/executive regulations that would establish national standards for conducting real estate appraisals, a real estate appraisal and certification program, and a national land title registration system, and reduce property transfer and/or registration fees to less than 1 percent of the transaction price.
- Introduce appropriate legislation to define rules for joint property ownership and establish land ownership (title) certification for the purpose of securing land holding for residential or commercial property.
- Introduce appropriate legislation and issuance of implementing regulations to enact modern bankruptcy procedures, including foreclosure and eviction, procedures that would facilitate joint lender/debtor resolution of outstanding debts.
- Passage of appropriate legislation, if required, and issuance of implementing regulations that would permit the establishment of private credit bureaus.
- Facilitation of the securitization process through the completion of legislative changes.
- Publish a corporate governance best practice code to generate awareness and encourage companies to comply with the code.

Item 6: \$25 million

- GOE concludes privatization of the candidate public insurance company.

The benchmarks were not conditions in the sense that they forced the CBE to undertake policies for which there was no support. Various members of the pro-reform coalition were strongly in favor of these policies, but the prioritization of these reforms as part of the cash transfer made them politically more feasible. The cash transfer associated with the MOU has grown increasingly symbolic as economic aid levels have been halved. The cash transfer now constitutes the bulk of the economic “peace dividend” forged during the Sadat years, and there is concern that if benchmarks remain unfulfilled, the U.S. may do away with economic aid all together. This realization places additional pressure on the urban labor component of the Mubarak coalition to not block these reforms.

USAID therefore played an important role in advancing limited economic reform through its support of technical units with ILMs. Yet this progress is still limited by the power of urban labor with a stake in public employment and consumer subsidies, and as a result patterns in public sector largesse have generally exhibited very little change. On the surface, Egypt’s budget deficit appeared to show improvement, at only 1.3 percent of GDP for FY 1998-1999. However, the government had a number of large, off-budget accounts (including that of the military) that in fact made the deficit quite a bit larger (Chemonics 2004). In FY 2007-2008, after the introduction of the Treasury Single Account system, the deficit was reported as about 6.9 percent of GDP. In 1997, the government instituted an optional early retirement scheme for public sector employees, but only 182,000 bought into it (IBM Consulting 2004, 17). Compensation of employees, which has averaged roughly 30 percent of expenditures, has shown no general decline between 1990 and 2006. Subsidies have actually increased from 12 percent of expense in 1991 to 33 percent in 2006 (World Bank 2008). Facing rising inflation, the proposed FY 2008-2009 budget included a 30 percent increase in public sector wages and subsidies (Abdel-Razek 2008).

Failed Technical Units in Jordan

Through its massive Achievement of Market-Friendly Initiatives and Results (AMIR) Programs I and II, USAID has tried to establish technical units in Jordan and to cultivate a group of reformers that would benefit from the units and the reforms that they would propagate. Yet the Hashemite coalition does not harbor the same pro-reform tendencies as its neighbor in Egypt, and U.S. efforts in these areas have failed miserably. The most notable examples are the Foreign Trade Policy Directorate at the Ministry of Industry and Trade and the Jordan Authority for Enterprise and Investment Development (JAED).

The AMIR I Program, contracted to Chemonics, essentially bankrolled Jordan’s accession to the WTO in 2000, as well as to the Jordan-U.S. Free Trade Agreement (JUSFTA) in 2001. AMIR paid for training and travel expenses of the Jordanian negotiating team and drafted legislation required for accession. AMIR focused its operations around a newly-established Foreign Trade Policy Directorate (FTDP) in the Ministry of Industry and Trade, which was intended to remain intact after accession for monitoring legislation and labor, intellectual property, and environmental standards required by the WTO and other international trade agreements. USAID indirectly financed the salaries of the unit’s employees and provided outside technical assistance through the AMIR II Program. Yet the unit did not have high-level support

from the Minister for Industry and Trade, did not receive additional resources and attention, and quickly became short-staffed and overburdened.

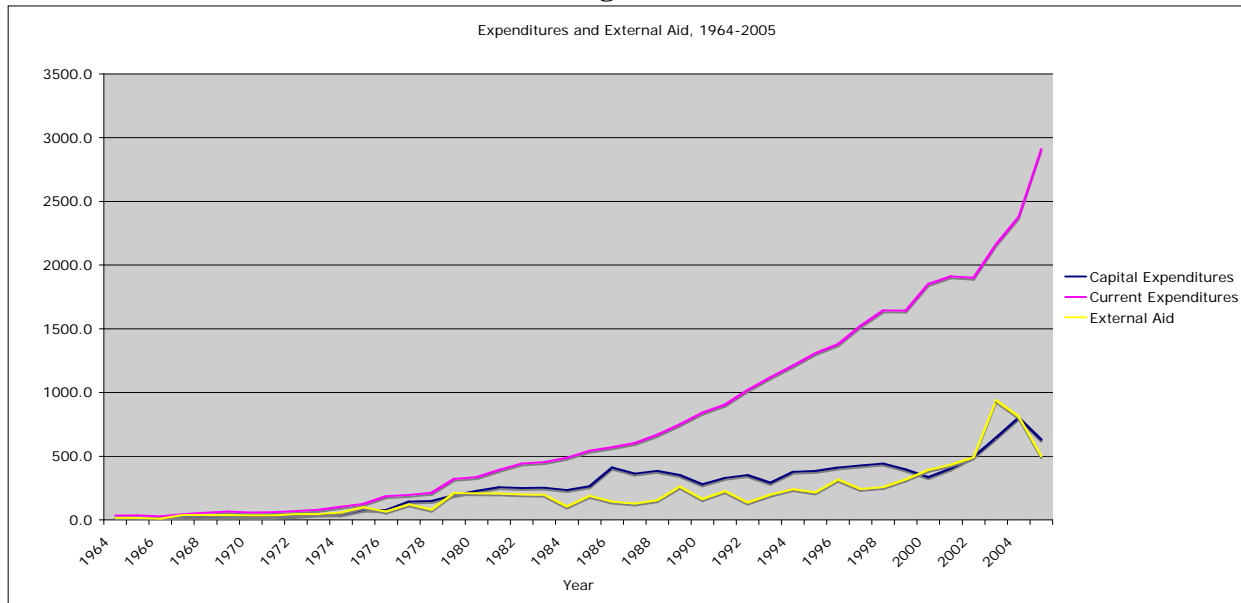
In response, USAID started devising another institution, JAED, which would “develop a trade and investment framework strategy for Jordan, monitor its implementation by other government agencies, and provide relevant research to the government (Wright 2006, 1).” JAED would have its own CEO and be located in the Ministry of Industry and Trade, where it would monitor trade policy, identify major policy issues, consult with the public and private sectors, research and analyze issues, and publicize and explain its recommendations. The intention was to remove some of the burden from the FTDP. AMIR II drafted the legislation for JAED’s institutional structure in 2002, and the legislation for its establishment was passed in the middle of 2003 (Wright 2006, 5). In the meantime, the Jordanian government’s National Agenda, spearheaded by a small group of pro-reform political elites like Marwan Mu’asher, elevated JAED’s position from a policy advisory committee and think tank to that of a coordinating body for the Jordan Investment Board, the Jordan Industrial Estates Company, the Free Zones Corporation, and the Jordan Enterprise Development Corporation, as well as the official coordinator of all trade agreements. This empowerment spurred a bureaucratic rivalry between the Minister of Industry and Trade and the new CEO of JAED, who arrived in early 2005 and quit in October (Anonymous Interviews, 2/26/2007, 3/4/2007, 4/3/2007, 4/13/2007).

The National Agenda was summarily shelved after facing opposition from the old guard, with Mu’asher leaving government for the World Bank in 2007. The inclusion of a CP in the 2006 cash transfer that required the Jordanian government to “enable the Jordan Authority for Enterprise Development (JAED) to function as an independent agency under the Ministry of Industry and Trade, consistent with the authorities described in the current temporary JAED Law” resulted in the hiring of a new CEO, but the JAED initiative has yet to take off. JAED has been a “longstanding headache” for USAID-Jordan because no group in society supports it (Anonymous Interview, 2/26/2007).

Infrastructure Providers in Jordan

Because tax breaks are a crucial side-payment to both the Transjordanian economic elite and tribes, and because the Jordanian government has been unwilling to increase tariffs on public utilities, Jordan has been highly dependent on foreign aid to finance capital expenditures. Figure 2 demonstrates this dependence; foreign aid receipts are nearly equivalent to capital expenditures. The U.S. has spent a significant portion of its aid dollars in Jordan on donor-providers that generate roads, irrigation, sewerage, and agricultural support. In the 1950s and 1960s, Point Four/USAID built and maintained infrastructure to benefit the East Bank population, while the U.N. Refugee and Works Agency (UNRWA) was used to provide infrastructure, employment, and services to Palestinian refugees. In the 1970s and 1980s, when overall bilateral U.S. aid declined, USAID shifted its focus to the Jordan Valley Authority (JVA), an autonomous entity charged with developing the Jordan Valley. After re-emerging as Jordan’s major donor in the mid-1990s, USAID intently focused on Jordan’s water sector at the national level through its Water, Resources, and Environment Office (WRE). The WRE is an example of a situation where USAID itself is the parallel institution—a donor-provider. This section will examine the WRE’s activities in the past fifteen years.

Figure 2



Source: Central Bank of Jordan, 2007.

With only 167 cubic meters of sustainable water per capita in 2003, Jordan is an extremely water-scarce country. Total demand for water exceeds available supply. These demands come primarily from the agricultural and industrial sectors, though a growing population and successive waves of refugee immigration have also contributed to the problem.²⁸ Poor maintenance of existing hydraulic infrastructure has resulted in leakage and waste and the cultivation of additional water resources is extremely expensive, at about four to five dollars per cubic meter (Scott et al 2003, 209).²⁹ Following the signing of the peace treaty between Jordan and Israel in 1994, the U.S. has focused on Jordan's water resources as an issue of geopolitics. The WRE grew from a small operation in 1994 to the second-largest spender of USAID funds in Jordan (after the annual cash transfer).

The scale of USAID's work in Jordan's water sector is unusual compared with the activities of other donors in Jordan, as well as compared with USAID's worldwide activities. USAID's commitment to water security in Jordan is based in a longstanding recognition that Jordan is a valuable ally and water is key to domestic stability. Unlike other donors in the water sector, such as Japan, Germany, and South Korea, USAID provides assistance in grants and is involved at all stages of the process, rendering it the Jordanian government's preferred donor. Table 3 contains a list of USAID activities in Jordan's water sector from 1992 to 2007. These activities, totaling \$611 million in fifteen years, encompass all stages of infrastructure provision, including planning, implementation, maintenance, and more recently institutional development and public outreach.

²⁸ The agricultural sector consumes about 75 percent of Jordan's water while only contributing to 2.2 percent of GDP. This is due to the prevalence of water intensive crops in the Jordan Valley, such as bananas and citrus, that have been encouraged by low water tariffs and the tariff protection on most fruits (Anonymous Interview, 3/12/2007).

²⁹ USAID-Jordan claims that about half of Amman's water supply is lost or unaccounted for.

Table 3
Major USAID Water Projects in Jordan, 1992-2007

Year	Project	Cost (\$ current)
1992	A Water Management Study for Jordan, which included 1.Introducing a water resources Management 2. Moving towards national crises 3. Making the most of Jordan's water 4. Strengthening the institutional framework 5. Enforcement in the water sector 6. Improving communication in the water sector 7. Recommending special project " the Zarqa River Basin"	300,000
1993-1997	Improved the treatment capacity and performance of the As-Samra wastewater stabilization ponds	12 million
1993-1997	To upgrade the As-Samra wastewater treatment Plant (stabilized ponds) to improve the quality of wastewater effluent and to reduce the odor generated by the plant.	12 million
1994-1998	Water Quality Improvement and Conservation (WQIC): To improve the overall management and conservation of Jordan's water resources.	
1994-1999	Information, Education and Communication Program with the Jordan Environment Society (JES): Tens of thousands of Jordanians, mostly women and school children, participated in lectures and discussions on water conservation strategies and water quality issues.	564,000
1995-1997	Greater Amman Wastewater Masterplan: Carried out all the planning, analysis and preliminary engineering design documents needed to build a wastewater collection, treatment and reuse systems to serve the population of Greater Amman - Zarqa River Basin through the year 2025.	2.9 million
1997-1998	Design of Deir Alla - Zai - Dabouq Pipeline	150,000
1997-2001	Rehabilitation of Four Contaminated Springs (Wadi-Sir, Qairawan, Qantara and Deek)	23.5 million
1997-2001	Wadi Mousa Water Supply and Wastewater	27.7 million
1997-1998	Pest Control in Communities Near the As-Samra Wastewater Treatment Plant	562,000
1997-2001	Contaminated Springs and Wells Rehabilitation: Rehabilitate 7 springs and 3 wells throughout Jordan (Wadi Sir, Qantara, Qairawan, Deek, Salt and Kafrein), thereby increasing the availability of potable water to 300,000 residents in local communities.	22.5 million
1998-2001	Upgrading of the Zai water Treatment Plant	6.76 million
1998-2001	Salt Water treatment Plant	8.6 million
1998-2001	Water Cost Analysis and Tariff Setting (FORWARD)	4 million
1998-2001	Irrigation Advisory Service	223,000
1998	Zai USGS Lab Equipment: Procured and provided a mobile laboratory and miscellaneous lab equipment to improve Zai plant water testing operations. This activity fell under emergency support in response to the 1998 summer water crisis.	150,000
1999-2007	Technical and Economic Study, Final Design and Construction Supervision of Upgrading and Expansion of the Aqaba Water and Wastewater Facilities. The project includes: 1. Preparation of a technical and economic feasibility study and	9.2 million

	final design of the upgrading and expansion of the water and wastewater requirements of the Aqaba city through the year 2025; and 2. Construction supervision of the expansion of Aqaba water and wastewater facilities required for the city of Aqaba through the year 2025.	
1999	Al Arda-Deir Alla Pipeline	159,000
1999-2001	Water Sector Policy Implementation Support: To support and implement the two water sector policies needed to enable sustainable use of groundwater aquifers and optimize use of treated wastewater effluent in irrigated agriculture.	3.65 million
1999-2004	Restructuring and Rehabilitation of the Greater Amman Water Supply (CMC): The project includes the restructuring and rehabilitation of 16 distribution zones of the Greater Amman Water Supply System.	76 million
1999-2000	Private Sector Participation (PSP): The activity developed the framework (legal regulatory, financial and operational) needed for private sector participation in financing, management, and operation of water and wastewater services in Jordan, it also assisted the MWI develop a management contract for the new Wadi Mousa water and wastewater system as well as develop PSP training Plans and generic BOT documents.	3 million
1999-2001	Host Country Contracting: The activity provided long-term assistance and training to the MWI and JVA to improve contracting and implementation of water and wastewater infrastructure projects.	780,000
1999	North Jordan Valley Wastewater Treatment Plant Design	1.8 million
1999	North Jordan Valley Wastewater Project	1.8 million
1999-2001	Host Country Contracting/ Private Sector Participation Support	1.5 million
1999-2004	Greater Amman Water Supply System Restructuring and Rehabilitation. In partnership with other donors, restructure and rehabilitate 16 zones of the Amman water supply system. Includes construction of 410 km of water mains, 18 water reservoirs, pumping, water system, and rehabilitation of leaking sections.	71.5 million
2002	Kafrein Water Supply System	4.5 million
2000-2004	Project Management Unit (PMU) Audits: To assure that international accounting practices are being implemented by the PMU on the multi-donor Capital Investment Program and to assess achievement of performance targets	1.5 million
2000-2005	Skills Enhancement and Support to Decision Makers	2 million
2000-2003	Water Efficiency and Public Information for Action: To promote the use of water conservation strategies and to increase public knowledge of water issues.	10 million
2000-2006	Development of a New As-Samra Wastewater Treatment Plant on a Build Operate and transfer (BOT) Basis.	75 million
2000-2007	Design, Construction, and Operation of Wadi Ma'in, Zara and Mujib Water Treatment and Conveyance.	91 million
2000-2001	Design of the Mafraq Wastewater Plant and Effluent Reuse.	844,626
2001	Host Country Contracting and private sector participation	1.5 million
2001-2004	Strategic Planning for JVA Phase II	1.7 million
2001-	Design, Implementation and Institutionalization of a Financial Accounting System	3.7

2004	in the WAJ and MWI.	million
2001-2004	Follow on to Host Country Contracting and Private Sector Participation	2.2 million
2001	Development of an Assistance Strategy for the Water Sector in Jordan.	140,000
2003	Institutional Improvement Action Plan, Ministry of Water and Irrigation	
2002-2006	Design, implement, and institutionalize an appropriate and operational accrual, financial accounting system (FAS) in Water Authority of Jordan (WAJ) and Ministry of Water and Irrigation (MWI). Jordan's water strategy emphasizes the most efficient use of the Kingdom's water supplies, recovering the costs of utilities, while being sensitive to the social impact of increased tariffs.	7 million
2002-2004	Phase I Implementation of Wastewater Reuse: The focus of this activity will be on practical application of treated effluent from several wastewater treatment plants including Aqaba, Mafraq, Wadi Mousa and Wadi Hassan WWTPs.	4 million
2002-2004	Construction Management Services for Construction of the Mafraq Wastewater Treatment Plant	1.73 million
2003-2006	KAFSA: Design and implement a water-use efficiency program in agriculture to increase knowledge about the issues facing irrigated agriculture and the changes required in the decision-making environment. Initiate changes in on-farm practices, especially practices that involve irrigation water efficiency, including irrigation with appropriately treated wastewater effluent, more valuable cropping patterns, and improved domestic and international marketing.	8 million
2003-2007	Expansion of Aqaba Wastewater Facilities	30.3 million
2004-2007	Reuse in Industry Agriculture and Landscaping (RIAL)	7 million
2004-2008	Wastewater Treatment Facilities for Two Small Communities	10 million
2004-2006	Establishment of Groundwater Monitoring and Enforcement Directorate at WAJ.	3.2 million
2004-2007	Enhancing Groundwater management in Jordan	2.3 million
2005-2007	Rehabilitation of Aqaba Water Facilities Project, Construction	17.5 million
2005-2007	Rehabilitation of Aqaba Water Facilities Project, Construction Management Contract	2 million

Source: Water, Resources, and Environment Office, 2007.

USAID accounted for nearly all development in Jordan's water sector between 2000 and 2007 (Anonymous Interview, 3/4/2007). The breadth of WRE's activities, from planning to implementation, establish it as an donor-provider rather than simply a donor that engages in infrastructure projects. At the institutional level and pre-planning stages, WRE is ever-present. WRE devotes significant resources to institutional capacity-building of the Ministry of Water and Irrigation (MWI), the Jordan Water Authority (JWA), and the JVA through strategic planning, technical assistance for contracting personnel, and equipment for good financial practices within these institutions. Ideally, these sorts of projects should reduce technical dependence on WRE, yet on a regular basis WRE still must help the MWI prioritize specific projects. WRE officers meet with MWI officials on a near-weekly basis, exchanging lists of priorities. WRE then advises the MWI on the importance of various priorities and how these

priorities might be met with domestic and/or foreign resources (Anonymous Interview, 3/12/2007). WRE is still also heavily engaged in providing feasibility studies, having concluded a comprehensive study for water management, a three-year water cost analysis study, and various other studies for individual projects.

WRE is also heavily involved at the planning phase, contracting out many of the major plans for Jordan's hydraulic infrastructure to American local companies. Between 1995 and 1997, Harza Environmental Services devised the Greater Amman Wastewater Masterplan. Between 1999 and 2007, Montgomery Watson Harza performed a technical and economic study and final design for the upgrading and expansion of the Aqaba water and wastewater facilities. From 1999 to 2000, ABT Associates developed the legal-regulatory framework for private sector participation in providing water and wastewater services in the Kingdom. While just a sampling of planning assistance provided by WRE, these three projects are significant in that WRE has (1) have enabled Jordan to undertake private contracting of hydraulic infrastructure on the national level; and (2) funded the planning for major infrastructure projects in Jordan's largest population center, Greater Amman, as well in the politically-sensitive ASEZ.

At the implementation phase, WRE is the leading provider of infrastructure in Jordan, although it does coordinate with other donors. WRE provides new infrastructure, such as the water supply and wastewater infrastructure for Wadi Mousa and the water treatment plant for the town of Salt. It also provides upgrading and maintenance, such as upgrading the Zai water treatment plant and the Al Samra wastewater stabilization ponds. WRE tries to ensure that the Jordanian government monitors its hydraulic infrastructure, but in many cases WRE ends up assuming these responsibilities.³⁰ This has been the case in Aqaba and Amman. USAID financed Aqaba's first water and sewerage system from 1979 to 1987, then returned to upgrade and expand the system in 1999. Similarly, USAID financed Amman's system between 1977 and 1985, then provided restructuring and rehabilitation between 1999 and 2004.

WRE makes extensive use of USAID's Cash Transfer Program to fund additional infrastructure outside of USAID's appropriated currencies, encourage policy changes within respective sectors, and ease the implementation of its own projects. For instance, in the 2004 Cash Transfer (which had a water resources theme), USAID required the Jordanian government to establish a private sector water authority in Aqaba; the MWI to develop an action plan to address administrative losses; the reopening and strengthening of the Groundwater Monitoring and Enforcement Unit at the MWI; and fully staffing the Demand Management Unit at the MWI. In addition, WRE ensures that some portion of counterpart currencies each year are used for maintaining infrastructure. In 2004, JD 14.983 million in counterpart currency was set aside for various improvement and maintenance projects, including the rehabilitation of the Amman water network, the construction of water conveyance systems, the improvement of sewerage systems in seven governorates, and the improvement of the King Abdullah Canal. In 2005, JD 20 million in counterpart currency was set aside for this purpose; in 2006 JD 24 million was set aside; and in 2007 JD 19 million (USAID 2009).

³⁰ For instance, the JWA must produce bi-annual reports on the operation and maintenance of all of the Jordan's wastewater treatment facilities, which WRE occasionally follows up on with on-site visits (Anonymous E-mail Correspondence, 7/29/2007).

Although USAID officials are careful to stress the “partnership” between WRE and the Ministry of Water and Irrigation (MWI)/ Jordanian Water Authority (JWA), USAID clearly plays a major role at all stages; it does not simply provide technical assistance at various stages of infrastructure provision as needed. It performs the full range of services that the MWI and the JWA should provide, or, in the case of the cash transfer, provides financial incentives for them to do so. Without WRE, it is unlikely that these services would be provided, both due to lack of financial resources and technical expertise on the part of their Jordanian counterparts.

Egypt

The provision of infrastructure in terms of new projects, expansion, and rehabilitation was a major component of USAID’s early activities in Egypt. These infrastructure projects were a function of both objective need, as well as USAID-Egypt’s need to spend the U.S.’s large annual allocations to Egypt. USAID-Egypt’s infrastructure program concluded in 2007. Unlike in Jordan, where the government has been unable to provide sustainable infrastructure due to inadequate tax revenues and its refusal to raise tariffs on utilities, the Egyptian government has done precisely that. In the power sector, Egyptian companies averaged 104.4 percent cost recovery between 1999 and 2004 and 134 percent in telecommunications. Only 76 percent cost recovery was achieved in the water sector, where many rural peasants are accustomed to receiving water for free (Pritchard 2004, 10-11); other donors, such as GTZ, have started decentralization programs for these groups that require payment (Anonymous Interview, 5/14/2008).

For those utilities that do not achieve cost recovery and are unable to turn a profit, the Egyptian government is also capable of making transfers from the central government budget. While the size of public sector has not significantly contracted, its basis of support has changed dramatically in the past fifteen years. Foreign aid was still provided 58 percent of government revenues in 1991, but in 2006 this figure dropped to a mere 6 percent (World Bank 2008). Furthermore, the Egyptian government does not appear to be replacing reduced foreign aid with external borrowing; external debt as a percentage of GNI has declined from 79 percent in 1990 to 27 percent in 2006. Rather, taxes on international trade and foreign aid have been gradually replaced by taxes on sales, income, and capital gains. While taxes on goods and services constituted just 16 percent of revenue in 1990, they amounted to 23 percent in 2006. Taxes on income and capital gains rose from 23 percent of revenue in 1990 to 32 percent in 2006 (World Bank 2008). While maintaining institutions of state largesse, Egypt appears to have been able to move much of the burden of distribution onto the business class. Egypt now redistributes.

Table 4
Major USAID Infrastructure Projects in Egypt, 1982-2005

Years	Project Title	Funding
Power Projects		
1982-1995	Aswan High Dam Power Station	139,516,000
1987-1998	Energy Conservation and Environment	140,975,000
1989-2004	Power Sector Support I	460,656,000
1989-1998	Alexandria Electrical Network Modernization	49,488,000
1994-2005	Power Sector Support II	172,300,000
Telecommunications Projects		

1988-1996	Telecommunications IV	81,676,000
1993-2006	Telecommunications Sector Support	281,900,000
1984-2005	Cairo Sewerage II	816,000,000
Water Projects		
1987-2000	Canal Cities Water and Wastewater II	377,078,000
1988-1998	Cairo Water II	144,840,000
1994-2005	Secondary Cities Development (Upper Egypt and Delta region)	325,000,000
1997-2004	Alexandria Wastewater System Expansion II	203,000,000
1997-2005	Egypt Utilities Management (Middle Egypt and Alexandria)	318,000,000

Source: Pritchard, 2004.

Conclusion

Drawing on the largely qualitative political economy scholarship from the Middle East, development economists have increasingly appropriated theoretical concepts from rentier theory into econometric studies of aid and fiscal practices. This literature is largely concerned with aid dependence,

a situation in which a government is unable to perform many of the core functions of government, such as the maintenance of existing infrastructure or the delivery of basic public services without foreign aid funding and expertise (provided in the form of technical assistance or projects (Brautigam and Knack 2004, 257).

Heller's 1975 study, followed by Kimbrogh (1980) posited that aid could replace revenues while allowing for the same level of expenditure. Khiliji and Zampelli (1994) find that in eight aid recipients from 1972 to 1987, aid was channeled to the private sector in the form of tax relief and has little effect on government expenditure. In a 107-country study covering 1970-2000, Gupta et al (2004) find that concessional loans are generally associated with higher domestic extraction, while grants have the opposite effect--while noting that in cases where debt is routinely forgiven this relationship is not likely to hold (Gupta et al 2004, 386). In addition to noting that aid might increase transaction costs by burdening recipient bureaucracies, Brautigam and Knack (2004) proposed a "moral hazard-" based mechanism whereby aid acts as a "soft budget constraint," causing recipients to perceive budgets as more flexible than they are. Feyzioglu et al (1998) find that aid increases both government spending and tax relief in thirty-eight countries. Remmer (2004) goes further, arguing that aid inherently provides incentives for increased levels of government spending, the so-called "flypaper effect." For Remmer, the fact that increased aid would be provided for the purpose of strengthening institutions is nonsensical.

This literature essentially expropriates the highly abstract literature on oil-based rentiers, theoretical flaws and all, and inserts foreign aid in the place of oil. Rentier theory generally fails to conceptualize external rent as anything other than a capital input, thus ignoring the diverse routes that a rent like foreign aid can take into a country. It also fails to examine the political link between specific external rents and institutional outcomes. Which groups prefer rent and why? How are rents delivered and how does this process affect institutional design? By focusing on the volume of external rent as the sole determinant for rentier states, the only means for

institutional change is through a decrease in external rents. Yet in a variety of rentiers, change occurs in the presence of external rent, and in others the status quo prevails even as rents fall.

This chapter has demonstrated that institutional change and persistence can occur in the independently of access to external rents. Barring a coalitional change, Jordan's Hashemite rulers have been forced to seek out new sources of rent and have remained incapable of providing public goods to their citizenry. By contrast, the rise of a pro-reform group in the Mubarak coalition has compelled the regime to implement limited economic reform while still funneling rents to its other coalition member, urban labor. In order to implement these preferences in a stable fashion, these two geopolitically relevant recipients have placed tremendous pressure on USAID to develop new institutions for upgrading and distribution. It is not merely coalition strategies that explain USAID's changing activities in Egypt and Jordan, but also the manner in which USAID has chosen to deliver technical and financial assistance. These dynamics cannot be captured adequately by borrowing from theories of oil rentiers.

The notion of parallel institutions comports well with Krasner's recent work on "shared sovereignty." In a 2004 article, Krasner writes,

The policy tools that powerful and well-governed states have available to "fix" badly governed or collapsed states—principally governance assistance and transitional administration (whether formally authorized by the United Nations or engaged in by a coalition of the willing led by the United States)—are inadequate. In the future, better domestic governance in badly governed, failed, and occupied polities will require the transcendence of accepted rules, including the creation of shared sovereignty in specific areas (85).

An important assumption behind Krasner's argument is that weak and failing states will not fix themselves, either due to lack of capacity or unfavorable political conditions (Krasner 2004, 86, 92). As such, transitional administration and foreign assistance for improving governance are defective because these states are ultimately incapable of functioning on their own. Since these types of states are commonly associated with terrorist movements that threaten U.S. national security, Krasner views it as imperative for greater powers to intervene, effectively sharing some of their own capable institutions with the weak state in specific sectors. This sort of intervention challenges conventional notions of sovereignty, yet ruling coalitions in aid recipients are willing to accept these arrangements because they are beneficial for themselves, not just the U.S.³¹

Krasner cites historical examples in which the U.S. has provided shared sovereignty, such as substituting its own forces for German defense in the mid-1950s, but he fails to notice that shared sovereignty arrangements between USAID and Middle Eastern aid recipients are already prolific and take diverse institutional forms. Parallel institutions have emerged as a solution to various types of coalition demands, such as providing infrastructure when patronage eats up all of a state's surplus capital; when reformers need a degree of institutional and political leverage to turn their preferences into policy; and when Western-friendly coalitions need new sources of rent. They are politically rational options for both the U.S. and their allies in Egypt and Jordan.

³¹ "Recognized authorities within territorial entities regulate behavior, enjoy independence from outside interference, and enter into mutually beneficial contractual relations with other recognized entities (Krasner 2004, 88)."

Yet are they economically rational options? Ideally, the U.S. would like to see countries like Egypt and Jordan embark upon sustainable development—with friendly regimes intact. Can parallel institutions ease geopolitical allies into economic and institutional reform without provoking political instability? The effectiveness of parallel institutions depends on political context and the continued commitment of U.S. resources. In Jordan the prospects are dim. The absence of a pro-reform coalition member has ensured that most parallel institutions are used for rent-seeking or providing infrastructure in areas where the state cannot, while parallel institutions that produce economic reform are summarily masticated by anti-reform coalition members. In Egypt, the prospects for parallel institutions are much better. What was initially a small, pro-reform member of the Mubarak coalition has banked on these institutions, using them to expand domestic revenues, increase economic transparency and opportunity, and provide the beginnings of a framework for private sector-led growth. Due to better tax collection, the regime can continue providing rents to urban labor, though a better scenario would be if the work of the parallel institutions yields private sector jobs for would-be public employees and dependents in the medium to long term. This long-term yield means that the U.S. needs to maintain its parallel institutions in Egypt well into the future.

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