

## **Informalizing Public Welfare: The Role of Egypt's Social Fund for Development**

The proposed research addresses the process of welfare regime informalization, under the auspices of the Social Fund for Development, and assesses its ramifications both for the prospects of sustainable development and political liberalization in Egypt. It seeks to explore the underlying dynamics behind the state's promotion of SMEs as an anti-poverty strategy within the larger context of increasing reliance on NGOs and semi-state actors in providing demand driven services. The central question the project focuses on is: why has the state adopted a productivist welfare policy centred on promoting the establishment of SMEs, which largely operate in the upper tier of the informal economy, while maintaining its hold over the formal liberalized market and political arenas? The role of policy learning by technocrats and the power maintenance logic of the state in seeking to re-regulate its relationship with politically risky groups in the neo-liberal era are investigated as possible explanations.

In addition, the research engages with the implications of the ongoing restructuring of the state's social protection policies at two levels. The first is the degree of poverty alleviation that has been attained through the promotion of SMEs as a job creation mechanism. The second is the ramifications of this strategy for state-society relations, more specifically the potential empowerment of beneficiaries through NGO advocacy as well as the possible emergence of a new democratically oriented autonomous capitalist class from the ranks of the state sponsored SMEs.

### ***Research Problematique:***

The main concern of my dissertation is to analyze the driving dynamics behind structural changes in Egypt's welfare regime and assess their impacts on the processes of equitable development and political liberalization. Changes to the state's welfare regime typically recast of relations between the state, the market, and civil society. More fundamentally, they also entail the "remodeling of the state, the

remodeling of its foundations, structures and functions in a new, changing economic environment"<sup>1</sup>. On the basis of this theoretical understanding of the politics of social provision, my research seeks to explore the ongoing informalization of Egypt's welfare regime and its implications for poverty reduction and state-society relations.

The multidimensional process of informalization is arguably evident in three crucial components of the state's productivity social protection regime under the umbrella of the Social Fund for Development (SFD). *Firstly*, the assigning of welfare policy mandates to the SFD in conjunction with local NGOs represents a shift in the administration of the state's welfare regime away from formal institutionalized government run programs towards more demand driven service provision through semi-state and non-state actors. *Secondly*, as part of Egypt's poverty reduction strategy, the SFD programs are oriented towards improving market access by the marginalized and creating jobs through promoting the establishment of Small and Medium Enterprises (SMEs)<sup>2</sup>, which tend to typically fall within the "upper tier of the informal economy."<sup>3</sup> While these enterprises meet the minimal requirement of legal registration, according to observers, they in fact often operate "informally" in several important respects like employment contracts and social security coverage for workers. In addition, since Egypt's SMEs typically do not forge links to large businesses and cannot access a broad clientele based on a purely exchange based logic, their survival in business often hinges on heavy reliance on social networks as well as norms of reciprocity and informality. *Thirdly*, the absence of a legally entrenched formal guarantee of support under the SFD programs represents another aspect of informalization and marks a clear departure from the earlier institutionalized universalism of social citizenship rights to pensions, incomes, subsidized health services...etc

The central puzzle the research will focus on is: why has the Egyptian state opted for the informalization of its welfare regime while concentrating power politically and resisting full fledged free market reforms since the inauguration of *infitah* in 1974? More specifically, why has the state adopted a welfare policy focused on aggressively promoting the SME sector while largely maintaining its hold over the post-reform market and political arenas? This question is arguably a pressing one for two sets of reasons. The first is that the target

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<sup>1</sup>Nicolas Spulber, *Redefining the State: Privatization and Welfare Reform in Industrial and Transitional Economies* (Cambridge: Cambridge UP, 1998). 2.

<sup>2</sup> The literature addresses this sector also in broader terms as Small Medium and Micro-sized Enterprises (SMMEs), the project follows the SFD's approach by adopting the term SMEs.

<sup>3</sup> See discussion in Ragui and Malak Rouchdy Assad, *Poverty and Poverty Alleviation Strategies in Egypt*, Cairo Papers in Social Science, vol. 22 (Cairo: American University in Cairo Press, 1999). 63.

populations for SFD's welfare oriented SME program are politically risky groups. They are primarily university graduates, who are no longer guaranteed public employment, workers who lost their jobs as part of structural adjustment in addition to returnee migrant workers who lost their jobs in Iraq after the 1991 Gulf war. The second is that given Egypt's historical trajectory of state centralization, the state's current deliberate efforts at informalizing one of its primary functions in the area of welfare provision, is a paradoxical development.

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