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

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Introduction

> *It is logical that the United States should do whatever it is able to do to assist in the return of normal economic health in the world, without which there can be no political stability and no assured peace. Our policy is directed not against any country or doctrine but against hunger, poverty, desperation and chaos. Its purpose should be the revival of a working economy in the world so as to permit the emergence of political and social conditions in which free institutions can exist.*

General George C. Marshall,
Commencement Address to Harvard University
June 5, 1947

The reconstruction of Western Europe under the Marshall Plan marked the United States' first systematic provision of economic aid to foreign allies. From April 1948 to June 1951, $107 billion in dollar grants, grants in kind, and loans flowed into Europe, intended to provide balance-of-payments assistance as the European industrial base was rebuilt.[1] In addition, the newly-created Economic Cooperation Administration (ECA, a predecessor agency to the U.S. Agency for International Development, USAID) oversaw major projects in infrastructure, technical assistance, and support for small businesses. Over the next twenty-five years Western Europe would both coalesce into a pro-American bloc against the Warsaw Pact and register its highest levels of economic growth in history. The U.S. strategy of promoting democratic freedoms and market liberalism was believed to produce a "winning amalgam" that the Soviet Union and its Warsaw Pact partners could not replicate, and the Plan was deemed a geopolitical and developmental masterpiece (Kunz 1997).[2] Postwar economic and military aid programs to South Korea and Taiwan, which totaled about $71 and $40 billion, respectively, were also heralded as successes (Jacoby 1967; Wade 1990; Woo 1991).[3]

However, the reputation of the U.S. aid program became tarnished after its activities expanded beyond rebuilding the war-torn industrialized economies of Western Europe and former Japanese territories into former European colonial dependencies in Africa, Latin America, Southeast Asia, and the Middle East.[4] While the economies of Western Europe rebounded quickly after the end of the Second World War, post-war American allies like Egypt and Jordan, which have received about $104 billion and $18 billion in total bilateral aid, respectively, remain mired in

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[1] These figures are in constant 2007 dollars (USAID 2008)
[2] See Hogan (1987) for a comprehensive history of the Marshall Plan.
[3] These figures are in constant 2007 dollars (USAID 2008).
[4] See Ruttan (1996) and Lancaster (2006) for a comprehensive history of the U.S. aid program.

poverty, corruption, and institutional deficiencies-- even though they have been receiving aid from the U.S. and other donors for thirty years or more.[5] The assertion that large-scale foreign assistance can exert pernicious effects on the institutions, politics, and economies of recipients has therefore become commonplace in the great debate on foreign aid effectiveness (Luciani 1987; Lavy and Sheffer 1991; Carapico 2002; Momani 2002; Remmer 2004; Knowles 2005).

The four cases of Egypt, Jordan, South Korea, and Taiwan collectively account for about 12 percent of total U.S. economic and military aid. At the peak of U.S. influence, authoritarian regimes in all four countries exchanged pro-American foreign policies for massive amounts of development aid, security support, preferential trade, and lax donor conditionality at the bi- and multilateral levels (Jacoby 1967; Woo 1991; Krueger 1992; Barnett 1993; Waterbury 1993; Brand 1995; Yom and Al-Momani 2009). Egypt and Jordan incorporated U.S. aid into pre-existing institutions of patronage and distribution, while at the same time long-term, American-financed “parallel institutions” facilitated late development and economic reform on the cheap (Weinbaum 1986; Waterbury 1993; Peters and Moore 2009). By contrast, South Korea and Taiwan used U.S. aid to upgrade the state bureaucracy and provide incentives for industrial efficiency; the end result was successful export-led growth and the “East Asian Economic Miracle” (Jacoby 1967; Amsden 1989; Wade 1990; Woo 1991; Kohli 2004).[6] Jordan and Egypt have been incorporated into scholarly accounts that treat foreign aid as a structural variable with detrimental political and economic properties, while South Korea and Taiwan are cited alongside the Marshall Plan as part of U.S. aid’s golden era. These four cases are simultaneously archetypes and anomalies in much of the foreign aid literature; no single theory inferring a relationship between aid and institutions or economic development more broadly can account for all four cases (Burnside and Dollar 1999, 2004; Easterly 2006).

This paper is part of a dissertation that tries to explain why U.S. aid has fueled highly distributive, aid-dependent states in Egypt and Jordan, yet has made positive contributions to developmental states in South Korea and Taiwan. The fundamental argument is that authoritarian rulers in each aid recipient were subject to different coalition constraints. Rulers in South Korea and Taiwan presided over narrow business-technocrat coalitions that did not require large side-payments

[5] These figures are in constant 2007 dollars (USAID 2008).

[6] Parallel institutions also existed in South Korea and Taiwan, but after serving the short-term purpose of post-war reconstruction, their functions (and often entire organizational structures) were absorbed by the central state.

to maintain, thus allowing aid to be used for institutional upgrading.[7] In Egypt and Jordan, however, rulers were bound by broad and costly coalitions consisting of business groups and subaltern classes.[8] Since 1921, the Hashemite rulers of Jordan have based their rule on a coalition of Transjordanian tribes and merchant-industrialists (Aruri 1972; Amawi 1992; Moore 2004; Peters and Moore 2009).[9] Since the *infitah* period of economic opening in the early 1970s, Egyptian rulers have relied on the support of urban labor and an urban, private sector bourgeoisie (Beinin and Lockman 1987; Waterbury 1993). These distributive coalitions emerged independently of foreign aid and resulted in distributive spending, minimal extraction, a politicized bureaucracy, rent-satisfying modes of state economic intervention, and collusive state-capitalist relations. Coalition constraints compelled rulers, as well as their geopolitically-minded foreign patron, the U.S., to (1) maintain existing institutions of patronage when possible; and (2) devise different institutional innovations that would maintain domestic stability when domestic or international challenges arose. Due to these countries' geopolitical centrality, the extent to which the U.S. could impose economic conditionality was seriously limited (Bearce and Tirone 2007).

The specific objective of this paper (the sixth chapter of the dissertation) is to explain the basic characteristics and prolonged tenure of U.S.-financed parallel institutions in Egypt and Jordan throughout periods of late development and neoliberal conditionality. The institutional reforms that would have been necessary to provide infrastructure for late development and implementing economic reforms would have destroyed side-payments to one or more coalition members. As a donor concerned primarily with regime stability, the U.S. was acutely aware of coalition demands and their institutional implications in Egypt and Jordan (Anonymous Interviews with Current and Former U.S. officials, Various Dates). To preserve domestic political stability and the continued viability of friendly regimes in these two countries, the U.S. committed massive technical and financial resources to parallel institutions that would supply the necessary outputs, infrastructure and economic reform, with minimal political costs. Parallel institutions and the outputs they produced were politically expedient in the short term in that they allowed Egypt and Jordan to develop in a stable fashion-- even as they maintained a broader set of economically dysfunctional

[7] A coalition refers to the arrangements by which ruling elites maintain the support of two or more social groups in exchange for their collective political support. Side-payments are benefits that elites must disburse to preserve the coalition (Waldner 1999).
[8] Disparate coalitions are costly because the economy policy preferences of each coalition member impose costs upon other coalition members, intensifying side payments (Waldner 1999).
[9] Transjordan refers to the land east of the Jordan River (what is today modern Jordan) and is also called East Bank. Cisjordan, also called the West Bank, refers to the land that today, in combination with the Gaza Strip, constitutes the Palestinian Territories.

institutions and policies. Yet parallel institutions have also detrimentally affected the process of state building in both of these countries. Their long-term presence precludes the emergence of specific local institutions or patterns of state-society relations that are usually generated by war, the onset of late development, and economic reform, rendering entire states and societies utterly dependent on the largesse of a foreign patron to function.

Parallel institutions are neither a new nor a scarce phenomenon, yet apart from Krasner's (2004) work on "shared sovereignty," the aid literature remains stubbornly focused on the relationship between aid and fiscal policy, emulating the model of mainstream rentier theory (for an overview see Luciani 1987 and Remmer 2004). [10] Within the scholarship on political development, which gives the process of state building a more nuanced treatment, parallel institutions have passed entirely under the radar.[11] For the purposes of both academic scholarship and policy prescription, we need to understand what parallel institutions look like; what they produce; how they affect the recipient state and society; and what accounts for their long-term durability in some cases. Policymakers today seem to know little about the temporal horizon or developmental effectiveness of these institutions in specific contexts. This is troubling, as parallel institutions have become the tool of choice for rebuilding weak states after the invasions of Afghanistan and Iraq—states that in many aspects resemble that of Jordan in the early 1950s, when the U.S. first implanted parallel institutions there.

The paper proceeds in four parts. The first section defines parallel institutions and discusses their various institutional manifestations. The next two sections discuss the use of different parallel institutions in Egypt and Jordan, arguing that the specific features of different parallel institutions render them more or less conducive to specific political contexts. The second section considers the role of donor-providers in supplying infrastructure for late development in Jordan. The third section documents how different coalition pressures in Egypt and Jordan precipitated different institutional adaptations in the neoliberal period. The Hashemites used U.S.-supported regional authorities to court to new rents for economically-displaced coalition members. The Mubarak regime has employed U.S.-supported technical units to enable pro-reform elements of the coalition amidst broader coalition opposition. The fourth and final section explores the broader implications of

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[10] Plumptre, for instance, documented the British support of central banks in former colonies in his 1940 *Central Banking in the British Dominions*. Parallel institutions were explicitly maintained in U.S. geopolitical allies during the Cold War and after, and have now become the tool of choice in the reconstruction and stabilization of "weak states" in Iraq and Afghanistan.

[11] The author wishes to acknowledge David Waldner for pointing out the underdeveloped nature of parallel institutions.

parallel institutions for state and society, and suggests future cases to which lessons from these cases might be generalized.

Defining and Distinguishing 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 a substantial portion of their financial resources and/or technical expertise. Second, parallel institutions have some degree of autonomy from the central bureaucracy of the recipient. Third, parallel institutions have a degree of political autonomy from certain groups in society. Both kinds of autonomy are due to the reliance on the parallel institutions on foreign resources, which separates them from the normal budgeting process and government auditing. Beyond these three general characteristics, however, the organizational format, operational area, and outputs or parallel institutions are highly complex. At least three different types of parallel institution can be identified in Egypt and Jordan. They are described below and included in a typology in Table 1.

Donor-Providers

Donor-providers are located within the organization of the donor itself. They employ only foreign staff, either as direct hires of the donor agency or as contractors, at market-competitive salaries by Western standards. Donor-providers are therefore completely reliant on donor resources for technical expertise, as well as for finance. Donor providers are completely autonomous from the aid recipient's bureaucracy for several reasons. The institution obviously belongs to the donor, but most importantly, donor-providers account for all core state functions in the sector over which they preside, including studying, planning, implementation, and monitoring. This operational comprehensiveness frees them from interaction with the recipient bureaucracy. Donor providers also have great potential for political autonomy from the recipient, again, because they belong to the donor; however, geopolitical imperative may compel donors to succumb to political pressures over sectoral outputs. The most common sector in which donor-providers are found is in various types of physical infrastructure. This is because recipient budgets in aid-dependent states are notoriously politicized and unpredictable, and donor organizations are the only entity that can credibly commit the long-term resources that infrastructure requires.

Recipient-Providers

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 small offices located within national level institutions of the recipient state, particularly important economic ministries and central banks. As such, each technical unit has a specific sectoral mandate that corresponds with ministry jurisdiction, such as finance, trade, or fiscal policy. Technical units are managed by local cabinet-level officials, who hire local experts at market-competitive salaries. These experts are not recruited through any formal meritocratic procedures, yet most do have substantial private sector experience, particularly from working in the Persian Gulf. Technical units are completely reliant on donor finance. Donors indirectly finance salaries of technical unit employees and provide training programs and office equipment. Technical units are also largely reliant on donor expertise, both indirectly through donor-financed salaries and directly through open-ended technical assistance projects that operate alongside the technical units. These projects are implemented by foreign consultants and pick up the slack from the units as needed. They also engage in implementation.

Provisions for technical units take place outside of the normal budgeting process, severing accountability to the cabinet and the legislature (but not any local political interests that the minister in charge of them may embody). The units are also autonomous from the broader bureaucracy, which is incapable of auditing the units and has little contact with them due to their operational comprehensiveness. Technical units are not simply implementers of donor projects, but entire institutions with pre-planning, planning, implementation, and monitoring capabilities that serve ministry agendas.[12] Technical units tend to be used for devising and implementing economic reforms and cutting through red tape. They may even preside over entire parallel segments of the economy, essentially running a liberal market operation in an otherwise state-dominated environment. For technical units to exist, there must be sufficient impetus for reform for the regime to risk undertaking reforms at the national level.

[12] These features render them distinct from technical assistance, technical cooperation, or project implementation units (PIUs). 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).

Table 1
A Typology of Parallel Institutions

	Donor-Providers	Technical Units	Regional Authorities
Internal Characteristics			
Location	Donor organization.	Recipient ministries and other national-level entities, i.e. central banks.	Geographically-defined area, typically based on strategic location and comparative advantage.
Hiring Elements	Foreign staff, either contractors or donor organization employees. Salaries are market competitive by Western standards.	Pertinent ministers appoint employees. No formal meritocratic structure is in place, though employees generally come from successful careers in the private sector. Salaries are market-competitive by local standards.	Management is formally appointed by the recipient head of government. Employees must take a civil service exam. Salaries are market-competitive for management and regular employees by local standards.
Financial Resources	100 percent reliant on donor finance. Direct spending by donor.	100 percent reliant on donor finance.	Independent extractive capabilities and variable reliance on donor finance.
Technical Resources	100 percent reliant on donor expertise.	Reliant on a combination of local employees, which donor allows to pay higher salaries, and foreign consultants that assist in planning and implementation.	Reliant on a combination of local employees, which donor allows to pay higher salaries. In early years, foreign consultants assist in organizational planning.
Political Autonomy	Potential for significant autonomy from recipient politics.	Institutional provisions take place outside of the normal budgeting process. Autonomous from national legislature and the broader cabinet due.	Institutional provisions are initially made through the normal budgeting process, but high-level MOUs initiated by the executive can modify these provisions. Autonomous from national legislature and broader cabinet contingent on executive support.
Bureaucratic Autonomy	Complete autonomy from the recipient bureaucracy is achieved due to (1) status as a donor organization; and (2) institutional ability to plan, implement, and follow-up.	Near autonomy from the broader ministry is achieved due to the capabilities of the technical unit and donor projects to engage in all phases of policy, from preplanning to implementation and follow-up.	Complete autonomy from most national-level bureaucracy is written into legislation.
Outputs	Infrastructure, which requires a long-term commitment that only donors can provide.	Economic reform, though it is circumscribed and conducted on a sectoral basis.	Public goods, whose benefits are captured and funneled as rents to coalition members.

Regional authorities are local governments that provide decentralized governance, infrastructure, and economic incentives over a geographically defined region. The geographic location of regional authorities is typically chosen based on a given area's ability to maximize economic gains through its strategic location or existing economic capabilities. The regional authority's management is formally appointed by the local head of government (i.e. the Prime

Minister, who may largely serve to execute the wishes of the ruler). Regular employees must take a civil service exam. Salaries are market-competitive for both management and regular employees by local standards. Regional authorities tend to have independent extractive capabilities, and depending on their revenue-sharing arrangements with the central government, may vary in their dependence on foreign aid. With regards to technical expertise, the regional authority relies largely upon local employees, for whom donors may provide the means for higher salaries. In early years, foreign consultants may assist in organizational planning.

Regional authorities initially lack autonomy from the legislature and cabinet, which must approve their formal structure. They are also not autonomous from the head of government, who appoints their management and generally has the power to defend or relinquish their continued autonomy from the legislature (Geddes 1994). Regional authorities have complete formal autonomy from the national bureaucracy in most sectors. Due to their high potential to provide streamlined governance across a number of sectors within a strategic location, regional authorities are ideal for attracting foreign investment. However, due to their lack of political autonomy from the head of government, the latter may use the authority's geographically-defined nature to restrict these benefits to political supporters.

Donor-Providers and Late Development in Jordan

Prior to the mid-1990s, disparate coalitions composed of inward-looking business and one or more subaltern classes underpinned authoritarian regimes in Egypt and Jordan. Both regimes relied on American donor-providers to supply physical infrastructure, which allowed them to continue their industrialization projects while allowing weak extraction and distributive spending to remain in place. For the purpose of brevity, this section will focus primarily upon Jordan, whose use of donor-providers is particularly exaggerated.

Physical infrastructure is necessary for industrialization (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. 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 (UNDP 2005, 7, 19).

Although some countries do genuinely lack sufficient economic surplus to finance infrastructure, these obstacles are fundamentally political in countries like Jordan. 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 contracts with private companies. These policy reforms would cut into the tax breaks and patronage employment that are crucial side-payments to coalition members. The availability of donor-providers that can commit to build and maintain infrastructure in the long term is thus an appealing option for authoritarian rulers employing distributive coalition strategies.

Since 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. 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 (Peters and Moore 2009). 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 through its Water, Resources, and Environment Office (WRE). The WRE is the most current example of a situation where USAID itself is the parallel institution—a donor-provider. Appendix 1 contains a list of all U.S. infrastructure projects in Jordan, including WRE's activities from 1992 to the present.

After the 1994 peace treaty with Israel elevated Jordan's water resources to a major American geopolitical priority, the WRE grew from a small operation to the second-largest spender of USAID funds in Jordan.[13] 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. Unlike other donors in the water sector, such as Japan, Germany, and South

[13] With only 167 cubic meters of sustainable water per capita in 2003, Jordan is an extremely water-scarce country. 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).

Korea, USAID provides assistance in grants and is involved at all stages of the process, rendering it the Jordanian government's preferred donor (Anonymous Interview, 3/12/2007).

WRE accounted for nearly all development in Jordan's water sector between 2000 and 2007, and encompasses all stages of infrastructure provision, including planning, implementation, maintenance, and more recently institutional development and public outreach (Anonymous Interview, 3/4/2007). WRE provides feasibility studies, then contracts out planning to American companies. At the implementation phase, WRE uses foreign contractors to construct new infrastructure, as well as to upgrade and maintenance existing infrastructure. WRE tries to ensure that the Jordanian government maintains its own hydraulic infrastructure after WRE builds its, but in many cases WRE ends up assuming these responsibilities.[14] For instance, 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 conditionality in 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).

The provision of infrastructure in terms of new projects, expansion, and rehabilitation was also a major component of USAID's early activities in Egypt, although USAID worked more closely with Egyptian institutions—as evidenced by large backlogs in aid spending. Egypt's electric

[14] 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).

power sector in the 1970s and 1980s had significant problems, including insufficient capacity for new firms, frequent brown-outs and blackouts, poor electrical quality, and deliberate load-shedding. The telephone system was antiquated and extremely congested, with a telephone line density of one telephone per 100 people. Repair attempts were often futile because the equipment was so old that cables disintegrated when touched. The country had not made any investments in modernizing its telecommunications network for over 10 years. By 1970, Cairo's sewerage system, designed for a population of two million, broke down under the pressure of serving a population of six million. Cairo had two small wastewater treatment plants and five pumping stations dating to 1915. Treated water available was 25 percent less than demand (USAID 2004, 3-4).

For the first two decades of the aid program, the Egyptian government was unwilling to increase fees for utilities that would finance their maintenance and expansion, and regardless, many of these fees were diverted to the central budget (see Appendix 2 for a list of USAID projects in the water, power, and communications sectors). 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 (Pritchard 2004, 10-11). There are specific political conditions that have enabled this change, including the rise of a pro-reform constituency (discussed below); increased coercion of urban labor; and the streamlining of benefits to coalition members through public employment, sheltering specific groups from broader costs of economic reform (there is insufficient space to discuss these last two items here).

Economic Reform on the Cheap in Egypt and Jordan

In the mid-1980s, Egypt, Jordan, and many other developing countries faced reduced access to foreign capital flows that they had relied upon in the past to supplement their large state budgets.[15] Although levels of U.S. aid remained relatively high in countries of geopolitical value, it was not sufficient to meet recipient budget requirements, and by the mid-1990s, economic reform was inevitable in Egypt and Jordan.

The subject of economic reform brings to mind what Kahler (1992) has called the "orthodox paradox." To generate effective market regulations, the state needs lean, coherent, and efficient institutions and more tax revenue to finance institutional upgrading. It also needs to free itself from

[15] 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.

the demands of any rent-seekers whose preferences, if realized, would detract from the overall goal of long-term development. States that require the most improvement, then, are often the least capable of undertaking it (Chaudhry 1994).

Consequently, economic reforms are typically initiated by the infusion of pro-reform technocrats into the bureaucracy. These policy elites are conceptualized by Waterbury (1992, 191) as “change teams:”[16]

> 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.

Yet as Haggard (1994, 470) writes, “The critical question is not whether a technocratic team exists, but where it sits in the institutional matrix.” Recipient providers are ideal institutional homes for change teams due to their insulation and autonomy, yet neither the technocrats that staff them nor the institutions themselves are apolitical, nor do they always provide public goods (Drake 1994).[17] What sort of outputs a recipient provider 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.

Who are these beneficiaries? The early literature on the politics of economic reform generally assumes that the benefits of economic reform are dispersed across a broad class of beneficiaries in the long term, resulting in disorganized “winners” amidst mobilized “losers” that will block economic reforms (Krueger 1974; Haggard and Kaufman 1992; Waterbury 1992).[18] Yet

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[16] 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).”

[17] This is an important point that Geddes (1994) overlooks when labeling such institutions “pockets of efficiency” in her study of Brazil. The most prominent example of a rent-seeking recipient-provider in the Middle East, for example, is Lebanon’s Council for Reconstruction and Development (CDR). 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 while planning, financing, and implementing the country’s reconstruction program. 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 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).

[17] This work derives much of its inspiration from Mancur Olson’s work on collective action problems (Olson 1965, 1982). 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).

[18] This work derives much of its inspiration from Mancur Olson’s work on collective action problems (Olson 1965, 1982). The implication of this argument is that to achieve reform states must act in the interest of the disorganized

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). "…interests organize and capture the decision-making arenas to induce governments to withdraw from the economy (Schamis 1999, 265)." This revisionist scholarship explains why in some countries we see organized winners advancing economic reform and reaping its benefits—*they can maximize rents in the short and medium term*. This is largely what we see in Egypt; winners from partial and full reform mobilizing from the bottom up. Yet mobilization of winners might also occur from the top down, which is largely what we see in Jordan.[19] The Hashemite regime has mobilized winners that will benefit from partial reforms that the regime is actively pursuing to compensate aggrieved coalition members from imposed and harmful conditionality.

In coalitional accounts, preferences translate directly into policy and there is no causal role for institutions. Yet in many developing countries, including Egypt and Jordan, strong preferences for reform do not necessary translate into policy. 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. Technocratic "change teams," then, are not independent actors, but manifestations of these broader coalitional phenomena.

Recipient providers offer pro-reform elements the ability to alter policy procedures and organizational positioning on the national level in ways that enhance autonomy, agenda control, and ability to contest alternative policy proposals. They also centralize decision making authority in single-purpose units, which alters organizational position and enhances autonomy, thereby displacing conflict over reform initiatives (Williams 2002, 398). Recipient-providers are, more than anything, local political devices. While aid makes the institution possible, it is the technocrats in the recipient-provider and their supporters who are the real players.

Regional Authorities in Jordan

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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).

[19] 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 Bunge y Born, that had traditionally opposed the party by appointing their executives to major economic ministries.

Following a major currency and banking crisis in 1989, both the Hashemites and their foreign patrons found themselves in a major dilemma. The reforms required by international financial institutions (IFIs) hit at the very core of institutional side-payments to the merchant-industrial elite by reducing protectionism, eliminating monopolistic import rights, and mandating the privatization of joint ventures.[20] 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 private sector rent for the Transjordanian economic elite.[21] The U.S. is a willing supplier, with one American official commenting, "The course of moderation brings rewards (Anonymous Interview, 4/5/2007)."

Most notably, the Hashemites have used the Aqaba Special Economic Zone (ASEZ) to arrange joint ventures between Gulf investors and displaced economic elites, as well as to tap new sources of rent for the central government budget, which supports state largesse for tribes. ASEZ, which started operating in 2001, encompasses the country's only port, Aqaba, and 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).[22]

ASEZA 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

[20] Jordan's committed average tariff rate under the WTO 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).

[21] Total U.S. bilateral aid to Jordan between 1989 and 2007 amounted to $7.65 billion (constant 2007 dollars). 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).

[22] ASEZA 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 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).

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 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). ASEZ has an official developer, the Aqaba Development Corporation (ADC, half owned by ASEZA and half by the central government) that is responsible for managing infrastructure and logistics contracts.

The regime has provided security for investors by aggressively defending ASEZ/ASEZA from tribal opposition, courting Gulf capital to partner with domestic investors, and demonstrating political commitment by investing citizen's pension funds in the zone.[23] At the behest of the King, 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 to establishing ASEZ 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 using conditionality in the annual cash transfer. 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).[24]

[23] Abdullah II's cabinet was heavily divided over the ASEZ Law of 2000, with tribal interests voicing concern about a "state within a state," and parliamentarians from Aqaba worried that the new authority would hire non-Aqabites at substantially higher salaries. Even the Prime Minister at the time, Abdel Raouf Rawabdeh, opposed the plan. Abdullah responded by replacing him with Ali Abul Ragheb, a former trade minister who headed the Financial Committee of the Lower House. Any chief commissioner of ASEZA will be close to the Royal Court due to ASEZ's importance to the King. 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 Jordanian intelligence services (GID). In 2007, Dahabi left ASEZA to become Prime Minister (Anonymous Interview, 3/14/2007).

[24] USAID officials are in Aqaba on a weekly basis and have a full knowledge of developments in ASEZ (Anonymous Interview, 3/14/2007). USAID funded the 1999 feasibility study for ASEZ 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, building a planning and evaluation directorate and implementing salary restructuring. 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 has

Royal political support and USAID technical support for ASEZ, in addition to its seaside location, made Aqaba an attractive prospect for Gulf investors specializing in tourism and real estate. The Hashemites have mediated these investments at a high level, directing Gulf investors towards displaced members of the Transjordanian economic elite as local partners. 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 Cooperation), the ASEZA commissioners, and local, regional, and international investors (Kardoosh 2004, 23). The King himself secured ASEZ's four largest investments: the Tala Bay, Soraya, Ayla Oasis, and Marsa Zayed real estate and tourism projects (Anonymous Interview, 3/14/2007).[25] In general, the Transjordanian economic elite has transferred its holdings from industry to real estate, either through joint ventures with Gulf partners or through serving as local middlemen for Gulf investment vehicles themselves. 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). Appendix 3 provides a list of all major investments in ASEZ, demonstrating (1) the prevalence of real estate and transport logistics; and (2) the pairing of powerful Transjordanian investors and Gulf capital.

Although the benefits of ASEZ have been most evident for business, there is potential benefit for tribes in the long run through any budget support ASEZ might provide to the central government. 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, the

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indirectly supported ASEZA and ADC through conditional precedents and counterpart currency projects in the Cash Transfer Program. This is how ADC was established, and it is how USAID has been able to garner additional funding for ADC and ASEZA, as well as to carve out spheres of influence for them both (Anonymous Interviews, 3/7/2007, 3/13/2007, 3/14/2007). 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).

[25] These four investments commit about $16 billion out of the $18 billion that has been invested in ASEZ to date.

result of increased investment and better enforcement, yet ASEZA's contributions to central government revenues are less than half of a percent. 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.

Technical Units in Egypt

In 1991, Egypt initiated its economic reform process in genuine for the purpose of meeting Paris Club requirements for forgiveness on about $21 billion in external debt.[26] Unlike in Jordan, where there was such widespread opposition to economic reform that even winners from partial liberalization had to be mobilized from the top-down and spoon-fed rents, Egypt had a pro-reform coalition that was engaging in bottom-up lobbying efforts. The reformers were composed of three distinct factions (Alissa 2007, 8-9). The first was a small contingent of technocrats led by Youssef Boutros Ghali, a former IMF economist educated at MIT.[27] 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 have 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, telecommunications, and banking. 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, and all

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[26] 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. Two more agreements with the IMF were negotiated in 1993 and 1996 under more stringent conditionality, and Egypt acceded to the WTO in 1995. 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. One hundred and ninety-nine SOEs were sold or partially sold between 1993 and 2004, many of which were bought up a 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.

[27] Today, Boutros Ghali is the longest-lasting individual in the Egyptian cabinet, having held almost every major portfolio since the early 1990s. A member of a prominent Coptic family, he 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).

three elements of the reform movement have found a rallying point in the American Chamber of Commerce in Egypt, the Egyptian Businessmen's Association, and the Egyptian Center for Economic Studies, a USAID-sponsored think tank (Anonymous Interview, 2/20/2009; Rutherford 2009).

In the mid-1990s, USAID started to 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 contained members from the American and Egyptian private sectors. Yet USAID was also careful not to advocate reforms that would harm the other leg of the Mubarak coalition, urban labor. USAID projects did 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.[28]

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 sales started to taper off (Anonymous Interview, 2/20/2009).[29] The same year, 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.[30] This reduction manifested itself mostly in projects, while the $200 million annual cash transfer was converted into a series of multi-year programs, Sector Policy Reform I, II, and II (SPR, 1992-1994, 1995-1997, 1996-1998); Development Support Program I and II (DSP, 1999-2002, 2001-2007).[31] Each program accounted contained numerous reform "benchmarks" that had to be achieved.[32] In

[28] 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)."
[29] The best SOEs had already been privatized, and by 2000, the GOE had privatized only 29 percent of SOEs (IBM Consulting 2004, 4, 17).
[30] 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 Netahyahu 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).
[31] For an excellent overview of each program and its associated benchmarks see Salim (2006).
[32] 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. The sale of these

November 2002, Deputy Assistant Secretary of State Elizabeth Cheney (whom many accused of running the U.S.'s Egypt policy from her cell phone) 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 non-performing lonas (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). One respondent claimed, "The idea was that we would give the Egyptians an [expletive] of money for some specific reforms and not ask how they spent it," yet the financial reforms were not forthcoming until the political environment changed in 2004.

In 2004, Mubarak appointed a reform cabinet under Prime Minister Ahmed Nazif (literally, "Mr. Clean" in Arabic).[33] This new cabinet contained the exemplars of the pro-reform coalition that had been in moratorium since 1998.[34] This time the coalition was much strengthened by the support of Gamal Mubarak, son of Hosni and heir apparent to the Egyptian presidency. When he became head of the NDP Policies Secretariat in 2002, Gamal allied 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; Rutherford 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).

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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).

[33] 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).

[34] The new cabinet included fourteen new members, most notably Prime Minister Ahmed Nazif, an engineer, former businessman, and former Minister of Communication and Information; Minister of Finance Youssef Boutros Ghali; Minister of Investment Mahmoud Mohieddin; Minister of Industry and Trade: Rachid Mohammed Rachid, a businessman and former president of Unilever North Africa, Middle East, and Turkey; 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); and 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.

Drawing upon resources offered by foreign donors, Boutros Ghali has taken the lead to effect institutional changes that better position reformers to effect policy change (Anonymous Interview, 5/10/2007). As Minister of International Cooperation in the late 1990s, Boutros Ghali initially used funds from the UNDP to create technical units for the purpose of implementing economic reforms, thus avoiding the issue of civil service reform and bureaucratic sabotage. "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). USAID initially opposed the use of technical units, essentially viewing them as project implementation units and therefore unsustainable. In response, USAID-Egypt developed a new mechanism using Implementation Letter Mechanisms (ILMs), which provide individual ministries with financial assistance for limited-term staff positions, subcontracts for services, and commodity procurement. 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.[35]

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

[35] Information on ILMs is not publicly available through USAID or any Egyptian ministries. The subject of salary scales is particularly controversial given the meager 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)."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).

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)."

Backed by 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 USAID's open-order TAPR II project, one of USAID's only country-specific, open order projects. TAPR II has been involved in devising all major economic reforms since 2004, removing some of the planning burden from the technical units.[36] TAPR II has also implemented a number of the reforms generated by the technical units, thereby reducing the prospects for bureaucratic sabotage.[37]

Technical units have another basis of support in the cash transfer program, which utilizes conditional benchmarks to carve out spheres of influence for them and arm reformist technocrats with "political coverage" in the People's Assembly.[38] 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. Appendix 4 contains key provisions from the MOU.

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[36] Within the realm of trade, TAPR II 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).

[37] 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).

[38] 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. Economic aid is still valued by the regime for technical assistance, but perhaps more importantly it acts as a buffer for military aid. This realization places additional pressure on the urban labor component of the Mubarak coalition to not block these reforms.

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

Post-2004, the three originators of reform have largely been Boutros Ghali's Ministry of Finance, Mahmoud Mohieddin's Ministry of Investment, and Farouk El 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 Mohamed 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 Central Bank and the ministries of Finance and Investment. However, reforms in the financial sector and tax code have a larger set of winners, who want a more routinized system of taxation and access to foreign capital. Rachid, on the other hand, faced tremendous opposition from protected industries (many of which supported financial sector and tax reform). Nevertheless, 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).

It is worth noting that USAID has tried and failed to establish technical units in Jordan. The most notable example is the Jordan Authority for Enterprise and Investment Development (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. USAID's AMIR II program 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 under current World bank VP Marwan Mu'asher, elevated JAED's position from a policy advisory committee and think tank to that of a coordinating body (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 tribes and businesspeople, and JAED has been a "longstanding headache" for USAID-Jordan because no group in society supports it (Anonymous Interviews, 2/26/2007, 4/14/2009).

Conclusions

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.[39]

In the past fifty years, U.S. aid has interacted with coalition politics in Jordan and Egypt to maintain existing patterns of distribution, and, in times of challenge wrought by late development and economic reform, to devise new parallel institutions. These institutional effects are far more diverse than the aid-based rentier literature's near-exclusive focus on extractive versus distributive institutions, and their various manifestations are a result of context-specific political circumstances. Before the mid-1990s, the legitimacy of Egyptian and Jordanian leaders hinged on their ability to deliver development, yet these leaders were unable to provide necessary infrastructure without disrupting side-payments to coalition members. Donor-providers supplying infrastructure were a politically expedient solution. Several decades later, when Jordan was forced to adopt economic reforms, regional authorities were ideal tools by which the Hashemites could court new rents for economically-displaced businessmen. Technical units were better-suited to the Egyptian context, where a pro-reform element of the coalition existed and wished to effect change on the national level amidst labor opposition.

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—at least in the short term.Yet are parallel institutions good long-term solutions? Are they developmentally beneficial? The short answer is no.

The longer answer can be extrapolated from a long and distinguished literature on state building in Western Europe, a school that is most commonly associated with Charles Tilly. Tilly argues that a fundamental bargain between state elites and private capitalists underpins both the modern state and capitalist economic system. In Tilly's capitalized-coercion model, the state traded property rights, expanding markets, and even state interventions and support for industry to finance wars. The state's provision of such benefits to capitalists resulted in institutional upgrading and increasing levels of bureaucratic complexity, resulting in high levels of infrastructural power. Yet

[39] "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)."

with reference to Egypt and Jordan's distributive coalitions, aid not only substitutes for domestic revenue but also performs many of the more complex functions of the state. Aside from those short-term gains that have been already been mentioned, the long term consequences of these practices for state building are quite negative.

First, strong relationships between the recipient state and local capitalists have often not formed, since it has been USAID at the helm of late development and economic reform rather than local institutions or politicians.[40] Rather, these relationships have been cultivated between the U.S. mission and local capitalists, largely excluding the recipient bureaucracy, which is generally only useful to capitalists wanting favors. It is telling that Egypt's pro-reform groups have largely organized themselves within AmCham. In 1981, AmCham Egypt initiated its first annual congressional "door knock," when dozens of prominent members would descend upon Washington, D.C. to lobby for economic reforms, more aid for private sector development, and eventually a free trade agreement with the U.S. The door-knocks are now in their 28th year, and have become a major function in the Egyptian social calendar. No such lobbying efforts exist for the Egyptian government, with which AmCham meets informally and behind closed doors.

As Evans (1995) has pointed out, states that are fully autonomous from society cannot be developmental: they lack vital exchanges of information with the private sector, as well as the ability to decentralize implementation (Evans 1995, 158; Schneider and Maxfield 1997, 5). Local capitalists, particularly the Egyptians, are indeed exchanging information with a key actor in the Egyptian policymaking process: the U.S. and its local allies in technical units. However, when U.S. economic aid declines (and it will this year, to only $100 million), one must wonder (1) if technical units that help to sustain the reform movement will survive; and (2) with whom Egyptian capitalists will exchange information, if at all..

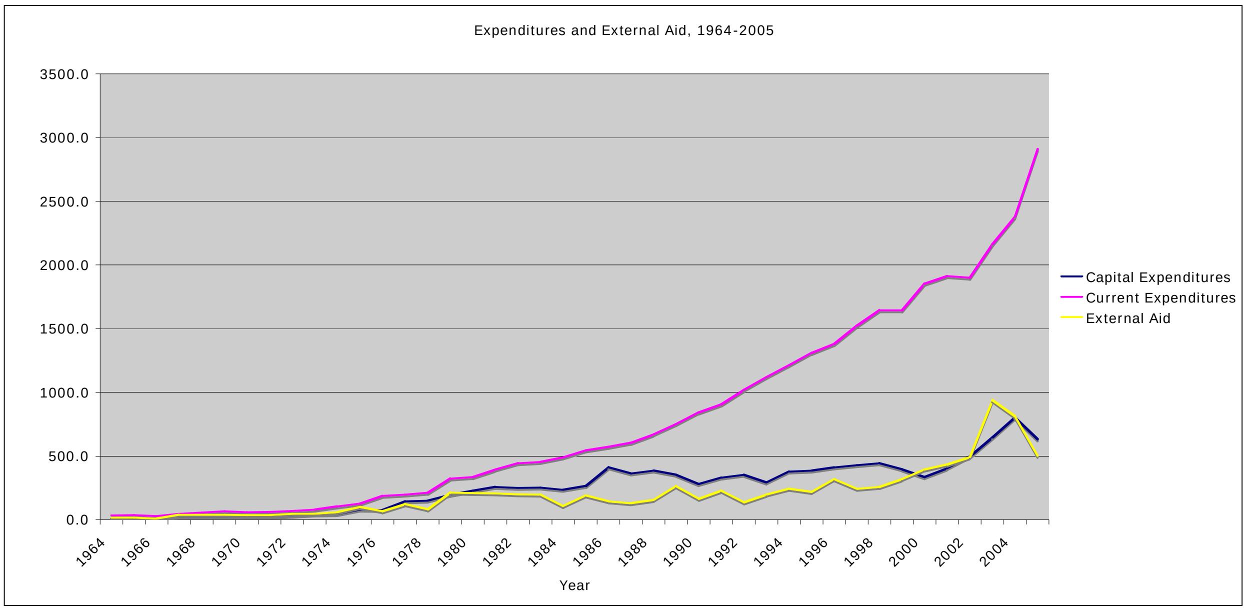
Second, aid recipients like Jordan are utterly dependent on donors to finance physical infrastructure because they lack the funds and the bureaucratic capacity to do so for themselves.[41] Figure 1 demonstrates that capital expenditures in Jordan have been almost equivalent to foreign aid receipts for the past forty-five years. This situation spells disaster when aid is discontinued or reduced, as it often is for various political and economic reasons. Jordan discovered this painful

[40] Even when the face of reform is local, as in the case of technical units or regional authorities, there is a strong realization that the livelihood of these institutions and the political capital of the individuals that staff them, is in great part due to USAID.

[41] Scholars such as Putnam (1993) have used infrastructure as an indicator of both state capacity and state power, without recognizing that this "power" does not emanate from the locality, but from abroad.

reality in 1956, when Point Four assistance was cut from JD 2.73 million to JD 0.47 million following the end of the Point Four demo phase. This led to chaos in the development "agenda" as the Jordanian government reneged on a number of projects that it did not have the capacity or funding to manage. Even when the projects had been successful under Point Four's guise, they had high recurrent costs, were expensive to administer, and required a technical sophistication that did not exist in Jordan (Kingston 1994, 205, 207-208; Knowles 2005, 28).

Figure 1



Source: Central Bank of Jordan, 2007

Third, should U.S. aid be reduced significantly, it may not only result in the demise of parallel institutions and the outputs they produce, but expose the flaws of distributive coalition strategies that they have, to date, often masked. In Egypt, for instance, patterns in public sector largesse have generally exhibited very little change.[42] 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

[42] 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).

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).

In Jordan, 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).

Fourth, parallel institutions' tendency to hire local experts at higher salaries drains talent from the broader bureaucracy, concentrating it in small, unroutinized, and politically-charged entities whose half-life is unknown. Not only does this render more routine bureaucratic functions less effective, it also heightens salary expectations for bureaucrats to the extent that when parallel institutions stop hiring, these individuals will opt for private sector employment over public service.

Finally, establishing parallel institutions for the purpose of maintaining existing patterns of distribution for political stability commits U.S. resources to these institutions until the coalition becomes less distributive. In Egypt, this day seems to be coming soon; in Jordan, this day is nowhere in sight. In the 1950s and 1960s, Jordan was comparable to modern-day Iraq and Afghanistan in many aspects. It was a weak state with limited territorial control, ability to regulate societal behavior, and ability to provide public goods. Moreover, the society over which it presided was factionalized, most fundamentally along the Transjordanain-Palestinian ethnic divide, but also among the various Transjordanian settled and Bedouin tribes. Its leader Hussein, was not expected to survive. The U.S responded with a battery of parallel institutions.

The chief insight that the case of Jordan supplies for Iraq and Afghanistan is to not employ parallel institutions in state building projects. Allowing locally-owned and initiated state building to engender some degree of domestic political conflict may ultimately result in more deeply entrenched institutions with greater independence from foreign finances. Using parallel institutions to finance infrastructure for the purpose of short-term economic stability is not a wise option. To the greatest extent possible, donors should work on supplying infrastructure through the recipient bureaucracy, providing financial and technical resources to the extent that they are mandated by post-war reconstruction needs, not political imperative.[43]

A final insight pertains to the delicate political conditions that parallel institutions tend to service. Facing a losing war and rising body counts, a general pressure has emerged within the U.S. for a quick and speedy withdrawal from Iraq. However, proponents of this vision have not considered to what extent the U.S. military and general occupation has been involved in the provision of parallel institutions in that country, particularly in the realm of infrastructure at the provincial level and technical expertise in national-level ministries. With a $79 billion budget surplus at the end of 2008, the Iraqi government clearly does not lack resources, but rather capacity to spend them. The reasons for this are two-fold. First, due to the instability of the country, qualified Iraqi expatriates that could staff the bureaucracy remain outside of the country, untempted by higher salaries. Second, and perhaps more importantly, Iraqi sectarianism has precluded the emergence of locally-owned institutions that can provide infrastructure and proper national economic governance. Rivals sects have captured different national-level ministries, employing them as patronage vehicles that attract and retain members. Additionally, sects whose power is biased towards the national level have refused to delegate extractive authority or national level resources to provincial governments for fear that rival power centers may arise. These specific political conditions are different than the distributive coalitions in Egypt and Jordan, and will merit additional consideration in a future article. Yet the broader lesson is that the institutional voids filled by parallel institutions in many countries is not for lack of financial or technical resources, but the product of political conditions—the delicate balance of which could be destroyed if parallel institutions are withdrawn without proper donor precaution.

[43] The sluggishness and/or politicization of the recipient bureaucracy will undoubtedly result in delays and a growing aid “pipeline” of unspent funds. Congress should permit these funds to accumulate in the long-term interest of state building, rather than ordering infrastructure to be directly provided by the U.S. or converting pipeline funds to a cash transfer, which will only serve to support distributive activities through the central budget.

Appendix 1

Major Point Four/USAID Infrastructure Projects in Jordan, 1951-1989

Year	Project
Early 1950s	Renovation of 75 Roman and Byzantine cisterns
	Dug 180 new wells and rehabilitated ten.
	Completed studies to develop the first master plan for water resource development for the entire Jordan River basin.
	Completed the Khadouri School, among 55 other agricultural training programs
	Built the road from Irbid to the Dead Sea
	Built the road between Amman and Ramtha on the Syrian border
1953	Established Jordan's Rural Development Department, later Department of Extension, within the Ministry of Agriculture
1954	Constructed a plant for storage and handling grain, including ten 500-ton storage bins
Late 1950s/ Early 1960s	Built the Amman-King Hussein Bridge-Jerusalem highway
1960s	Built the road from Ma'an to Wadi Musa to provide access to Petra
	Built the road from Amman to Mount Nebo
1960	Established the Central Water Authority, forerunner of the Water Authority of Jordan
1960	Constructed the Ziglab Dam
Mid-1960s	Constructed series of small dams and 40 small irrigation systems, bringing water to 750,000 people in the Jordan Valley
1969	Constructed the East Ghor ("King Abdullah") main canal, opening up development of the Jordan Valley
1970s	Constructed 72 schools in the Jordan Valley, Southern Ghor, and Wadi Araba
	Built the road from Yarmouk to the Dead Sea, together with 200 kilometers of farm-to-market roads throughout Jordan Valley
	Built 70 news schools, 16 hospitals and health centers, a modern telephone system, commercial centers, housing and 14 government administrative offices in the Jordan Valley
	Provided electricity to 37 communities in and around Amman
Late 1970s	Extended the East Ghor ("King Abdullah") canal
	Completed the Zarqa triangle irrigation project in the Jordan Valley, providing water to 1,000 new farms
Late 70s-early 80s	Completed water and sewage project, bringing water and sewage to 800,000 people in Amman and the surrounding vicinity.
	Constructed a new wastewater system at the city of Aqaba
1980	Completed studies and design for the Magaren Dam
	Implemented the Jordan Valley Agricultural Services project for the Jordan Valley
	Upgraded the Agricultural Research Center at Deir Alla
Early 1980s	Constructed 32 schools elsewhere in Jordan
1980s	Improved or constructed wastewater facilities in Amman, Aqaba, Irbid, Zarqa, and

	eleven other cities and towns in Jordan
Mid-1980s	Funded the construction of the Zai water treatment plant outside Amman
	Equipped nine Jordan Valley extension centers

Source: "Summary of USAID/Jordan Achievements, 1951-2004," "Support to Jordan in the Water and Water Management Sector, 1952-2007."

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	150,000

	miscellaneous lab equipment to improve Zai plant water testing operations. This activity fell under emergency support in response to the 1998 summer water crisis.	
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 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.	9.2 million
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
2001-2004	Design, Implementation and Institutionalization of a Financial Accounting System in the WAJ and MWI.	3.7 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	KAFA'A: 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. Iinitiate 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.

Appendix 2
USAID Utilities Infrastructure Support to Egypt, 1973-2004

Years	Project Title	Cost ($ current)
Power Projects		
1973-1980	Electric Power Distribution	29,834,000
1976-1980	Gas Turbine Generators Talkha-Helwan	67,299,000
1976-1988	Ismailia Thermal Power Plant	249,576,000
1976-1987	National energy Control Center	42,296,000
1979-1991	Shoubra El Kheima Thermal Power Plant	261,503,000
1977-1991	Urban Electric Power Distribution Equipment	97,128,000
1982-1992	Energy Policy Planning	20,856,000
1987-1998	Energy Conservation and Environment	140,975,000
1982-1995	Aswan High Dam Power station	139,516,000
1989-1998	Alexandria Electrical Network Modernization	49,488,000
1982-1991	Talkha Combined Cycle Plant	64,674,000
1989-2004	Power Sector Support I	460,656,000
1994-2005	Power Sector Support II	172,300,000
	Total	*1,796,101,000*
Telecommunications Projects		
1978-1983	Telecommunications I	40,000,000
1979-1985	Telecommunications II	80,000,000
1979-1989	Telecommunications III	121,063,000
1988-1996	Telecommunications IV	81,676,000
1993-2006	Telecommunications Sector Support	281,900,000
	Total	*604,639,000*
Water and Wastewater Projects		
1976-1984	Water Use and Management	12,995,000
1977-1989	Cairo Water I	97,265,000
1978-1988	Canal Cities Water and Sewerage	165,332,000
1977-1984	Alexandria Sewerage I	14,639,000
1978-1988	Cairo Sewerage I	128,275,000
1979-1997	Alexandria Wastewater System Expansion I	422,076,000
1982-1991	Provincial Cities Development	384,229,000
1984-2005	Cairo Sewerage II	816,000,000
1987-2000	Canal Cities Water and Wastewater II	377,078,000
1988-1998	Cairo Water II	144,840,000
1994-2005	Secondary Cities Development	325,000,000
1997-2004	Alexandria Wastewater System	203,000,000
1997-2005	Egypt Utilities Management	318,000,000
	Total	3,408,729,000
	Grand Total	**5,809,469,000**

Source: USAID 2004, 6-7.

Appendix 3
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
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,	$500 million

		Orascom Projects for Touristic Development, Zara Investments, the Social Security Corporation, and Al Haqq Establishment)	
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.

Appendix 4
Items in Financial Sector MOU

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.

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