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Debt and “Democracy” in Egypt: The IMF’s Deadly Economic Reforms

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Although press coverage of events in Egypt may have dropped off the front pages, discussion of the post-Mubarak period continues to dominate the financial news.

Over the past few weeks, the economic direction of the interim Egyptian government has been the object of intense debate in the World Bank, International Monetary Fund (IMF) and European Bank for Reconstruction and Development (EBRD). U.S. President Obama’s 19 May speech on the Middle East and North Africa devoted much space to the question of Egypt’s economic future – indeed, the *sole* concrete policy advanced in his talk concerned U.S. economic relationships with Egypt. The G8 meeting in France held on 26 and 27 May continued this trend, announcing that up to $20-billion (U.S.) would be offered to Egypt and Tunisia. When support from the Gulf Arab states is factored into these figures, Egypt alone appears to be on the verge of receiving around $15-billion in loans, investment and aid from governments and the key international financial institutions (IFI).

The press releases accompanying the announcement of these financial packages have spoken grandly of “the transition to democracy and freedom,” which, as several analysts have noted, conveniently obfuscates the previous support of Western governments for the deposed dictators in Tunisia and Egypt. This article argues, however, that a critique of these financial packages needs to be seen as much more than just a further illustration of Western hypocrisy. The plethora of aid and investment initiatives advanced by the leading powers in recent days represents a conscious attempt to consolidate and reinforce the power of Egypt’s dominant class in the face of the ongoing popular mobilizations. They are part of, in other words, a sustained effort to restrain the revolution within the bounds of an “orderly transition” – to borrow the perspicacious phrase that the U.S. government repeatedly used following the ousting of Mubarak.

At the core of this financial intervention in Egypt is an attempt to *accelerate* the neoliberal program that was pursued by the Mubarak regime. The IFI financial packages ostensibly promote measures such as ‘employment creation,’ ‘infrastructure expansion’ and other seemingly laudable goals, but, in reality, these are premised upon the classic neoliberal policies of privatization, de-regulation and opening to foreign investment. Despite the claims of democratic transition, the institutions of the Egyptian state are being refashioned within this neoliberal drive as an enabling mechanism of the market. Egypt is, in many ways, shaping up as the perfect laboratory of the so-called post-Washington Consensus, in which a liberal-sounding ‘pro poor’ rhetoric – principally linked to the discourse of democratization –

is used to deepen the neoliberal trajectory of the Mubarak-era. If successful, the likely outcome of this – particularly in the face of heightened political mobilization and the unfulfilled expectations of the Egyptian people – is a society that at a superficial level takes some limited appearances of the *form* of liberal democracy but, in actuality, remains a highly authoritarian neoliberal state dominated by an alliance of the military and business elites.

‘Accelerating Structural Economic Reforms’

The most important point to note about the aid packages promised to Egypt is that they do not in any way represent a break from the logic encapsulated in previous economic strategies for the region. In a report to the 26-27 May G8 Summit, the IMF clearly summarized this logic, noting that:

> “Overcoming high unemployment will require a substantial increase in the pace of economic growth … Achieving such growth rates will entail both additional investment and improved productivity. While some increases in public investment may be required, for instance to improve the quality of infrastructure and services in less developed rural areas, the key role will have to be played by the private sector, including by attracting foreign direct investment. Thus, government policies should support an enabling environment in which the private sector flourishes.”

The core argument expressed in this statement is essentially the same message that the IMF and World Bank have been pushing in decades of reports on the Egyptian and Middle East economies. Egypt’s problems stem from the weakness of the private sector and the ‘rent-seeking’ of state officials. The solution is to open Egypt’s markets to the outside world, lift restrictions on investment in key sectors of the economy, liberalize ownership laws, end subsidies to the poor for food and other necessities, and increase market competition. By allowing unfettered markets to operate freely, the private sector will be the key engine of growth and, through this harnessing of entrepreneurial initiative, lead to the creation of jobs and prosperity.

Of course these ideas are simply a restatement of the basic premises of neoliberalism, but it is imperative to acknowledge their continuity with earlier plans – the promised aid to Egypt consciously aims at achieving a specific outcome in line with previous neoliberal strategy. The concrete policy implications of this were most clearly spelt out in a flagship World Bank report published in 2009, *From Privilege to Competition: Unlocking Private-Led Growth in the Middle East and North Africa.* The report prescribes steps to be taken by all governments in the Middle East, including “(1) opening protected sectors such as retail and real estate, which have barriers to foreign investors … (2) reducing tariff bands and nontariff barriers; (3) removing protection of state-owned firms by enforcing hard budget constraints and exposing them to open competition; and (4) eliminating anti-export biases.” In order to encourage foreign investment, governments should eliminate “high minimum capital requirements and restrictions on foreign ownership” and, in countries where state-owned banks exist “engage in open and transparent privatization.”

These are the types of policies that we can expect to see in Egypt as this aid begins to flows – in fact, they are the essential pre-requisites for the receipt of this financial support. The mechanisms of this conditionality are discussed further below, at this stage, it is simply important to note that there has been an unassailable link established between aid and the fulfillment of neoliberal reforms. As the Institute of International Finance (IIF), a policy and lobby organization that brings together the largest financial institutions in the world, noted in early May: "As momentous as the current security and political restructuring challenges may be, it is absolutely critical that the transition authorities … place a high priority on deepening and accelerating structural economic reforms … transition and subsequent governments must articulate a credible medium-term reform and stabilization framework … [and] need to focus on creating the legal and institutional environment for fostering entrepreneurship, investment, and market-driven growth." The IIF went on to bluntly identify this acceleration of structural adjustment as the "context" in which aid to Egypt would be provided.

'Red Tape' and Institutional Reform

In addition to these standard neoliberal prescriptions, the other element to the policy logic guiding IFI financial support concerns institutional reform. This reflects a wider shift in the developmental strategy of the IFIs since the 1990s, in which more emphasis has been placed on linking the function of markets with their institutional governance. Within this context, the World Bank and other institutions have emphasized notions such as the 'rule of law,' 'decentralization,' 'good governance,' 'separation of the legislative and executive' and so forth, which supposedly aim at reducing the rent-seeking capabilities of state officials and guarantee greater transparency in economic affairs.1

This emphasis on institutional reform partly reflects a problem of perception faced by the IFIs. The embrace of issues of 'governance' and 'democracy' is explicitly designed to ensure greater legitimacy for neoliberalism, particularly in the wake of the disastrous decades of 1980s and 1990s where the open advocacy of structural adjustment wreaked havoc on much of the South. This policy shift, however, does not represent a turn away from the logic of neoliberalism. Rather, it actually serves to reinforce this logic, by tailoring institutions to the needs of the private sector and removing any ability of the state to intervene in the market. In the Middle East, where authoritarian regimes have been the norm, these calls for institutional reform can be easily portrayed as democratic (and, indeed, they are explicitly framed within a discourse of democratization). In reality they are profoundly anti-democratic. By limiting democracy to the 'political' sphere and expanding the notion of freedom to include 'markets,' they obfuscate the necessary relations of power within the market, and explicitly block the ability of states to determine the use, ownership and distribution of their economic resources. Democratic control of the economy is thus precluded as a violation of 'good governance.'

In the case of Egypt, the discourse of institutional reform has allowed neoliberal structural adjustment to be presented not just as a technocratic *necessity* – but as the actual fulfillment of the demands innervating the uprisings. In this sense, neoliberal ideology attempts to reabsorb and fashion dissent in its own image, through rendering Egypt's uprisings within a pro-market discourse. This fundamental message has been repeatedly emphasized by U.S. and European spokespeople over the last weeks: this was not a revolt against several decades of neoliberalism – but rather a movement against an intrusive state that had obstructed the pursuit of individual self-interest through the market.

Perhaps the starkest example of this discursive shift was the statement made by World Bank President Robert Zoellick at the opening of a World Bank meeting on the Middle East in mid-April. Referring to Mohammed Bouazizi, the young peddler from a Tunisian market place who set himself on fire and became the catalyst for the uprising in Tunisia, Zoellick remarked:

“the key point I have also been emphasizing and I emphasized in this speech is that it is not just a question of money. It is a question of policy … keep in mind, the late Mr. Bouazizi was basically driven to burn himself alive because he was harassed with red tape … one starting point is to quit harassing those people and let them have a chance to start some small businesses.”

In this discursive reframing of the uprisings, the massive protests that overthrew Mubarak and Ben Ali occurred due to the *absence* of capitalism rather than its *normal* functioning. In an ideological sense, this reframing directly confronts the popular aspirations that have arisen through the course of the struggle in Egypt. The political demands heard on the streets of Egypt today – to reclaim wealth that was stolen from the people, offer state support and services to the poor, nationalize those industries that were privatized, and place restrictions on foreign investment – can be either disregarded or portrayed as ‘anti-democratic.’ Precisely because Egypt’s uprising was one in which the political and economic demands were inseparable and intertwined, this effort to recast the struggle as ‘pro-market’ is, in a very real sense, directly aimed at undercutting and weakening the country’s ongoing mobilizations.

The Mechanisms of Structural Adjustment

This understanding of the basic logic presupposed in the IFI financial packages allows us to turn to the precise mechanisms through which structural adjustment is unfolding. There are two common elements to all the financial support offered to Egypt to date – an extension of loans (i.e. an increase in Egypt’s external debt) and promised investment in so-called Public-Private Partnerships (PPPs). Both these elements are tied to Egypt’s implementation of structural adjustment. Strategically, it appears that the initial focus of this structural adjustment will the privatization of Egypt’s infrastructure and the opening of the economy to foreign investment and trade through PPPs (these are discussed below). In addition to the U.S. government, World Bank and IMF, the other main institutional actor in this process is the European Bank for Reconstruction and Development (EBRD).

Debt

> In other words, contrary to popular belief, more money actually flows from Egypt to Western lenders than vice versa. … Western loans act to extract wealth from Egypt’s poor and redistribute it to the richest banks in North America and Europe.

Currently Egypt’s external debt runs at around $35-billion (U.S.) and over the last decade the country has been paying around $3-billion (U.S.) a year in debt service. From 2000 to 2009, Egypt’s level of debt increased by around 15%, despite the fact that the country paid a total of $24.6-billion in debt repayments over the same period. Egypt’s net transfers on long-term debt between 2000 and 2009, which measures the total difference between received loans and repayments, reached $3.4-billion. *In other words, contrary to popular belief, more money actually flows from Egypt to Western lenders than vice versa*. These figures demonstrate the striking reality of Egypt’s financial relationship with the global economy – Western loans act to extract wealth from Egypt’s poor and redistribute it to the richest banks in North America and Europe.

Of course, the decision to borrow this money and enter into this 'debt trap' was not made by Egypt's poor. The vast majority of this debt is public or publically guaranteed (around 85%), i.e. debt that was taken on by the Mubarak government with the open encouragement of the IFIs. Egypt's ruling elite – centered around Mubarak and his closest coterie – profited handsomely from these transactions (estimated in the many billions). This is indicative of the fact that much of Egypt's debt is what development economists call 'odious debt' – debt that has been built up by a dictatorial regime without regard to the needs of the population. Mubarak does not hold sole responsibility for this process. The World Bank, IMF and many other lenders continued to encourage this borrowing (and to praise Egypt's economic direction under Mubarak) precisely because it was such a profitable enterprise.

This is the essential background context to the discussions around Egypt's foreign debt. In his 19 May speech, U.S. President Barack Obama made much of a promise to relieve Egypt of up to $1-billion in its debt obligations. Obama described this as the U.S. government's attempt to support "positive change in the region … through our efforts to advance economic development for nations that are transitioning to democracy." In addition to this monetary support, Obama also promised to urge the World Bank, IMF and other countries to help "stabilize and modernize" Egypt and "meet its near-term financial needs."

Putting aside the hubris of this speech, Obama's offer needs to be understood accurately. Contrary to what has been widely reported in the media, this was not a forgiveness of Egypt's debt. It is actually a debt-swap – a promise to reduce Egypt's debt service by $1-billion, *provided that money is used in a manner in which the U.S. government approves*. This debt-swap confirms the relationship of power that is inherent to modern finance. The U.S. is able to use Egypt's indebtedness as a means to compel the country to adopt the types of economic policies described above. Obama was very explicit about what this meant – stating that "the goal must be a model in which protectionism gives way to openness, the reigns of commerce pass from the few to the many, and the economy generates jobs for the young. America's support for democracy will therefore be based on ensuring financial stability, promoting reform, and integrating competitive markets with each other and the global economy."

This same policy language has been clearly articulated alongside the loans promised to Egypt by the World Bank and IMF. On 12 May, Caroline Atkinson, Director of the External Relations Department at the International Monetary Fund (IMF), announced that the IMF was studying a request from the Egyptian government for $3-4-billion (U.S.) of loans and would "visit Cairo shortly to begin discussions with the Egyptian authorities on an arrangement." Indicating that these loans would come with conditions, Atkinson noted that "the size and scope of Fund support will be defined as discussions progress." An advisor to Egyptian Finance Minister Samir Radwan confirmed this, declaring "How the money will be spent will undergo a process of negotiation." On 24 May this conditionality was set out following an announcement by the World Bank and IMF that they would provide $4.5-billion (U.S.) to Egypt over two years. Noting that "reforms were as important as money," World Bank President Robert Zoellick explicitly linked the initial $1-billion "to governance and openness reforms with a further $1-billion available next year dependant on progress."2 The remaining $2.5-billion (U.S.) would be invested in development projects and private sector loans (see below).

Unless these loans are refused and the existing debt repudiated, Egypt will find itself in a cul-de-sac from which there is little chance of escape. Foreign debt is not a neutral form of 'aid' but an exploitative social relation established between financial institutions in the North and countries in the South. Trapped in this relationship, countries become dependent upon a continuous stream of new loans in order to service previously accumulated long-term debt. It is a means to deepen the extraction of wealth from Egypt and – precisely because of the continued dependency on financial inflows – serves to chain Egypt to further structural adjustment measures. The Egyptian people are being punished for an indebtedness that they did not create, and that punishment consists of being locked into even greater indebtedness by the institutions that put them there in the first place.

Foreign Investment and Public-Private Partnerships (PPPs)

Also in his 19 May speech, Obama pledged $1-billion in investments through a U.S. institution known as the Overseas Private Investment Corporation (OPIC). OPIC's mandate is to support U.S. business investment in so-called emerging markets; it provides guarantees for loans (particularly in the case of large projects) or direct loans for projects that have a significant proportion of U.S. business involvement and may face political risk. Perhaps emblematic of OPIC's activities was its first investment in Afghanistan following soon after the invasion of that country by NATO-led forces in 2001 – a new Hyatt Hotel in Kabul that would be used as "a platform for business persons" visiting the country. OPIC was also a key partner in encouraging the free-market ideology that underpinned the economic policy of the Coalition Provisional Authority (CPA) in Iraq following the U.S.-led invasion of 2003.3 The U.S. government openly asserts the link between OPIC and U.S. foreign policy objectives. This is well encapsulated in the organization's slogan – "support[ing] U.S. investment in emerging markets worldwide, fostering development & the growth of free markets."

Because OPIC's investment depends upon reducing barriers to foreign capital and accelerating the privatization of state-owned enterprises, its activities are predicated upon, and help to reinforce, the extension of neoliberal program described above. In the case of Egypt, this is likely to take place primarily through the use of U.S. government funds to establish Public-Private Partnerships (PPPs). [Ed.: see John Loxley on PPPs at LeftStreamed No. 96.] A PPP is a means of encouraging the outsourcing of previously state-run utilities and services to private companies. A private company provides a service through a contract with the government – typically, this may include activities such as running hospitals or schools, or building infrastructure such as highways or power plants. For this, they receive payments from the government or through the users of the service (such as highway tolls). PPPs are thus a form of privatization, which, in the words of one of their foremost proponents, Emanuel Savas, is "a useful phrase because it avoids the inflammatory effect of "privatization" on those ideologically opposed."4

OPIC's intervention in Egypt has been explicitly tied to the promotion of PPPs. An OPIC press release, for example, that followed soon after Obama's speech, noted that the $1-billion promised by the U.S. government would be used "to identify Egyptian government owned enterprises investing in public-private partnerships in order to promote growth in mutually agreed-upon sectors of the Egyptian economy."

The focus on PPPs, however, is illustrated even more clearly in investment promised by another international financial institution, the European Bank for Reconstruction and Development (EBRD). The EBRD was established at the time of the fall of the Soviet Union, with the goal of transitioning Eastern Europe to a capitalist economy. As the EBRD's President Thomas Mirow put it in the lead up to the Bank's discussions on Egypt: "The EBRD was created in 1991 to promote democracy and market economy, and the historic developments in Egypt strike a deep chord at this bank."

The EBRD is shaping up to be one of the lead agents of the neoliberal project in Egypt. On 21 May, EBRD shareholders agreed to lend up to $3.5-billion to the Middle East, with Egypt the first country earmarked for receipt of loans in the first half of 2012. This will be the first time since its establishment that the EBRD has lent to the Middle East. Catherine Ashton, the European Union foreign policy chief, has remarked that the EBRD could provide 1-billion euros annually to Egypt, which would give the institution an enormous weight in the Egyptian economy – as a point of comparison, the total investment value of all PPP projects in Egypt from 1990-2008 was $16.6-billion.

Anyone who has any illusions about the goals of the EBRD's investment in Egypt would do well to read carefully the *EBRD 2010 Transition Report*. The report presents a detailed assessment of the East European and ex-Soviet Republics, measuring their progress on a detailed set of indicators. These indicators are highly revealing: (1) Private sector share of GDP; (2) Large-scale privatization; (3) Small-scale privatization; (4) Governance and enterprise restructuring; (5) Price liberalization; (6) Trade and foreign exchange system; (7) Competition policy; (8) Banking reform and interest rate liberalization; (9) Securities markets and non-bank financial institutions; (10) Overall infrastructure reform.5 Only countries that score well on these indicators are eligible for EBRD loans. A research institute that tracks the activity of the EBRD, *Bank Watch*, noted in 2008 that a country cannot achieve top marks in the EBRD assessment without the implementation of PPPs in the water and road sectors.

The EBRD intervention thus likely augurs a massive acceleration of the privatization process in Egypt, most likely under the extension of PPPs. The current Egyptian government has given its open consent to this process. Indeed, at the EBRD Annual General Meeting on 20-21 May where Egypt was promised funds, a spokesperson of the Egyptian government remarked: "the current transition government remains committed to the open market approach, which Egypt will further pursue at an accelerated rate following upcoming election." The statement noted "that public-private partnerships have much potential as an effective modality for designing and implementing development projects, particularly in infrastructure and service sectors (transport, health, etc.). Therefore we will encourage PPP initiatives." Moreover, fully embracing the pro-market ideological discourse discussed above, the Egyptian government promised to relax control over foreign investments through committing "to overcoming the previous shortcomings of excessive government centralisation. In addition, we will build on existing initiatives to achieve a greater level of decentralisation, especially in terms of local planning and financial management."

Conclusion

The projects and investments mentioned are above are not the sole aspects of the IFI-backed neoliberal project in Egypt.6 But at the most fundamental level, this financial aid confirms a conscious intervention by Western governments into Egypt's revolutionary process. In the very short term, large infrastructure projects and other economic schemes may provide some employment creation, housing, educational training and perhaps the appearance of a return to stability given the prevailing sense of 'crisis.' This investment, however, is premised upon a profound liberalization of the Egyptian economy. They will *only* be undertaken concomitant with measures such as a deepening privatization (undoubtedly in the form of PPPs), deregulation (initially likely to be connected to the opening up of more sectors to foreign investment), the reduction of trade barriers (connected to access to U.S. and European markets), and the expansion of the informal sector (under the banner of cutting 'red tape'). They will necessarily involve, furthermore, a rapid expansion in Egypt's overall indebtedness – tying the country ever more firmly to future structural adjustment packages.

If this process is not resisted, it threatens to negate the achievements of the Egyptian uprising. As the decades of the Egyptian experience of neoliberalism illustrate all too clearly, these measures will further deepen poverty, precarity and an erosion of living standards for the vast majority. Simultaneously, the financial inflows will help to strengthen and consolidate Egypt's narrow business and military elites as the only layer of society that stands to gain from further liberalization of the economy. The expansion of PPPs, for example, will provide enormous opportunities for the largest business groups in the country to take ownership stakes in major infrastructure projects and other privatized service provision. Alongside foreign investors, these groups will gain from the deregulation of labour markets, liberalization of land and retail activities, and the potential access to export markets in the U.S. and Europe.

These measures also have a regional impact. Their other main beneficiary will be the states of the Gulf Cooperation Council (Saudi Arabia, Kuwait, United Arab Emirates, Bahrain, Qatar and Oman) who are playing a highly visible and complementary role alongside the IFIs. Saudi Arabia has pledged $4-billion to Egypt – exceeding the amounts promised by the US and EBRD. The Kuwait Investment Authority announced in April that it was establishing a $1-billion (U.S.) sovereign wealth fund that would invest in Egyptian companies. Kuwait's Kharafi Group, which had won PPP contracts in the power sector in Egypt in 2010 and is estimated to have $7-billion invested in Egypt already, announced that it was taking out an $80-million loan for investments in Egypt. Qatar is also reportedly considering investing up to $10-billion, according to its ambassador in Egypt.

As with the investments from Western states, these financial flows from the GCC are dependent upon the further liberalization of Egypt's economy, most likely through the mechanisms of PPPs. Indeed, Essam Sharaf, Egypt's interim prime minister, and Samir Radwan, finance minister, have both travelled frequently to the GCC states over recent months with the aim of marketing PPP projects, particularly in water and wastewater, roads, education, healthcare, and energy. One indication of the direction of these efforts was the announcement by the Dubai and Egyptian Stock Exchanges to allow the dual listing of stocks on their respective exchanges. This measure will allow privatized companies or investment vehicles to be jointly listed on both exchanges, thus facilitating the increased flows of GCC capital into Egypt.

In essence, the financial initiatives announced over recent weeks represent an attempt to bind social layers such as these – Egypt's military and business elites, the ruling families and large conglomerates of the GCC, and so forth – ever more tightly to the Western states. The revolutionary process in Egypt represented an attack against these elements of the Arab world. The uprising cannot be reduced to a question of 'democratic transition' –precisely because the political form of the Egyptian state under Mubarak was a direct reflection of the nature of capitalism in the country, the uprising implicitly involved a challenge to the position of these elites. The inspiring mobilizations that continue on the Egyptian streets confirm that these aspirations remain firmly held. Western financial aid needs to be understood as an intervention in this ongoing struggle – an attempt to utilize the sense of 'economic crisis' to refashion Egyptian society against the interests of Egypt's majority, and divert the revolution from the goals it has yet to achieve.

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Notes:

1. For a detailed critique of these notions, see *The New Development Economics: After the Washington Consensus*, edited by Jomo. K.S and Ben Fine, Zed Books. 2006.

2 This clear message of conditionality makes a mockery of the claim by Egyptian Finance Minister, Samir Radwan, that: "We have an Egyptian programme … I am not accepting any conditionality – none whatsoever."

3 A fundamental part of this process – likely to be replicated in the case of Egypt – was a focus on encouraging Iraqi business to become increasingly dependent upon U.S.-owned finance capital through the support of U.S. bank and finance lending to small and medium-enterprises in the country.

4 *Privatization in the City*, Emanuel Savas, CQ Press, Washington DC, 2005 p.16.

5. Belarus, for example, was rewarded for its "removal of price and trade restrictions on many goods and reduction of list of minimum export price" by a rise in its price liberalization indicator from 3 to 3+. Likewise, Montenegro received the same increase for privatizing parts of its power and port sectors.

6. For example, another important vehicle is the Arab Financing Facility for Infrastructure (AFFI), established by the World Bank, International Finance Corporation and the Islamic Development Bank earlier this year to promote investment in the Middle East region. The AFFI aims to raise $1-billion and will focus on infrastructure, explicitly around PPPs. The AFFI focuses on regional integration projects, and is thereby being used to promote the reduction of trade and tariffs within the region. It is as yet unclear what the AFFI involvement with Egypt will be, but it has been highlighted by the World Bank as a major component of its future activities in the country.