Corruption Affecting Small Businesses in Formal and Informal Districts of Cairo Before & After the January 2011 Revolution

A Thesis submitted to the Public Policy & Administration Department in partial fulfillment of the requirements of the degree of Masters of Public Administration

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Abstract

University: the American University in Cairo

Thesis Title: Corruption Affecting Small Businesses in Formal & Informal Districts of Cairo Before and After the January 2011 Revolution

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Following the Arab Spring and specifically the January 25th 2011 revolution in Egypt, countries in the region continue to face turmoil economically, politically and at the security level. This has lead to great controversy and polarization between the different actors, and stagnation of the democratic transformation of the country. When looking at one of the root causes of the uprisings, corruption is specifically highlighted. Post-revolutionary governments have pledged to combat the phenomenon at all levels, but their policy impact is yet to be seen.

The purpose of this research was to look at the types of corruption affecting small businesses in formal and informal districts of Cairo before and after the January 2011 revolution. The district of Nasr City was chosen, including its formal neighborhoods and the informal area of Ezbet Al-Haggana Small grocery businesses were selected as representatives of the largest business sector in Egypt. The purpose was to identify the discrepancies between the two types of sectors in the types of corruption they face on a daily basis, and how they have been impacted by the Revolution. This would allow us to gain insights on the barriers to conducting business after the Revolution and how anti-corruption policies affect businesses at the local level.

The study findings indicate that corruption affecting small businesses in both formal and informal districts of Cairo decreased drastically, compared to before the revolution; the main reason for the results being the breakdown of citizens’ fears and the weakening of governmental power and authority, particularly in the police.
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Chapter 1- Introduction

This thesis was developed to answer the question of whether corruption affecting small businesses in formal and informal districts of Cairo increased, decreased or remained the same after the January 2011 revolution. Since the wellbeing of small businesses has a profound effect on the wellbeing of the Egyptian economy (Ministry of Foreign Trade, 2003), and corruption is believed to have an important impact on small businesses, an evidence-based response to this question can help us analyze the bigger picture of corruption and eventually, whether the revolution had a positive or negative impact on the Egyptian society. As any revolution should change the country for the better, one thing that we should learn from the revolution is how to be more objective and to base our decisions on facts, not merely opinions.

This study will help us in exploring and understanding how corruption works at the street level in formal and informal districts of Cairo. Which will eventually allow this study based on the research and findings to propose feasible recommendations on how can we overcome this problem in general; how can we make sure that it does not come back later in specific, through reforming the municipalities, regulating the role of the police, bring normal small businesses into full legality status. This study will help us to know if and only if Egyptians became less corrupt due to the revolution and its clear positive impact on them. A clear example of this constructive impact was what we saw directly after the revolution, there was this nationalistic feeling and citizens cleaned their neighborhoods and did not throw garbage in the street, fights decreased and the whole population had this positive energy and the feeling that we own our future, that we are on the steps of a
new era, era that will make the word ‘Egyptian’ a character rather than a citizenship ("Egypt protesters volunteer," 2011). Unfortunately, this hope vanished quickly as the nationalistic feeling and positive energy disappeared. The main reason for this hope was the unity of all the different sectors of the society, most Egyptians united for a certain goal, after we reached this goal, our differences drove us apart from each other and too many people started seeking a personal benefit rather than the greater good of the society.

When the revolution took place two years ago, many Egyptians were optimistic and supported the revolution, as it managed to get rid of a corrupt regime. They hoped that the new government would to come later would tackle the country's problems, enforce social justice, apply anti-corruption measures and simply help us develop. Unfortunately, two years later, things are not as so many expected and hoped. One factors that did not change is corruption; indeed it can be said that there is a general public perception that corruption increased. The link between corruption and the revolution thus offers an important and timely topic: has corruption increased or decreased? Revolution certainly increased the determination of the people to hold the government accountable on issues such as corruption. Before the revolution, the government was rarely held accountable for anything and, as demonstrated by the explosion of corruption cases before the courts after the revolution, certainly not for corruption. Although the reform process did not fully start yet, is not complete and has by no means addressed all causes of corruption, this is thus an opportune time to examine what changes in corruption can be seen on the Egyptian street.

There are many different definitions and interpretations for the concept of informality, as discussed in the literature review below. This study defines informality
as the lack of a formal relationship between the area or business, on the one hand, and the government, on the other. In other words, the government does not recognize nor consent to the area's or district's existence, for whatever reason. Thus, an informal area is an area within a city that does not have government approval or is being used in a way that violates that approval. The same applies to informal businesses; these are businesses that do not have formal recognition from the government; their operation is thus illegal, even if all activities are legal as such. In the case of a business, in most instances, the establishments do not have the license to operate. To be a fully-functioning legal business in Egypt, the owner must have the license issued by the district, the taxes card, and the commercial registry. The study found that none of the 40 groceries surveyed was fully formal. Whereas all of the businesses in the formal area established before the revolution have the last two, they lack the local license. All of the new firms in the formal area and all firms, new and old, in the informal area lack all three together. Thus all of the businesses studied were license-less businesses and were informal to some extent.

This study was conducted on corruption affecting the small businesses in formal and informal district of Cairo, before and after the January revolution. The type of corruption that will be focused upon in this study is mainly bribery, one of the most common types, although there are many other forms of corruption. Of course the small businesses were obliged to pay these bribes to the corrupt government officials who either ask for the bribe or just wait for it because if the corrupt government officials did not get it, they will start harassing, pressuring and abusing their powers with the shop owner to make him feel how weak he is and that he has to pay for them whatever they ask for otherwise they will cause for him lots of troubles that he can
avoid (Puddephat, 2012). It was found that most of these small businesses are not registered, which makes them more susceptible for being blackmailed by the corrupt government officials.

Part of Cairo’s diversity as a city is that it encompasses all the different interpretations of the word ‘informal’, starting from informal areas, to informal businesses, to informal housing, etc. All of that shows how the normal Egyptian citizen is doing his best to live even if all his life will be composed of all the derivations of the word informal. According to the OECD’s definition of informal areas, they are ‘areas where groups of housing units have been constructed on land that the occupants have no legal claim to, or occupy illegally’; Cairo hosts many informal areas. For the informal businesses, these are businesses that the authorities do not know of its existence, due to the fact that they do not have any paper work, no license, do not pay taxes, their employees do not receive social security and whenever there is census they are considered to be unemployed, nonetheless and keep on operating a certain business and selling products to the citizens. Relating things together, many citizens would directly relate corruption to informal areas and assume that corruption is high in these areas; this assumption will be discussed later in this study. But what is for sure is that there are few studies done on this issue, which leads the citizens to guess not to build their opinions based on facts. The problem of informalities and corruption has to be tackled and for it to be tackled it has to be studies first; this is one of the main reasons for this study.

Transparency International’s Corruption Perception Index of 2012 scored Egypt 32 out of 100 and ranked it 118 out of 174 studied countries. This shows that there is a problem, and as Shereen Zaky, a lawyer at Shalakany Law Office says “I
would speculate that people who file government papers usually have to pay small bribes to get them filed. This is usually the case with any interaction with government bureaucracy. But I don't know if there are any statistics on bribery. Evidence on low-level corruption is mainly anecdotal” (Puddephat, 2012). There is a shortage of credible data in this important area, as there are only very few number acknowledged. This constraint did not allow many scholars and researchers to explore this problem, as will be discussed in the literature review. We need more research to be conducted on this area which emphasizes the importance of this study as it clearly states the problem and is supported with field data on micro-level corruption.

The formal district chosen for this study is Nasr City, which is a diverse neighborhood that many of its inhabitants are middle class, lower middle class whom live in the public housing and few working class. The informal district chosen is Ezbet el Haggana or Arbaaa w Nos, that officially lies within Nasr City and houses the poor, lower middle and lower class citizens who cannot afford living in any other location within this geographical area or have chosen to live in Haggana because a comfortable home can be purchased or rented for much less than in other areas.

![Map of Nasr City and Izbit ElHaggana](image)

*Figure 1 Map of Nasr City and Izbit ElHaggana*

Source: Googlemaps; Accessed- 16 May 2013
What is unique about this study, is that it explores corruption affecting small businesses in formal and informal districts of Cairo, an area in which little work was done before, not to the extent that will help us to have a clear understanding of the problem. After this introduction, there will be the statement of the problem and why it is worthy of studying followed by background information then comes the literature review after that is methodology section in which the used methodology will be explained followed by the explanation of the data, case studies and its analysis and at the end comes the part of the study findings, implications, recommendations & conclusion.

The methodology developed to explore the research question used three different approaches, including qualitative and quantitative methods, to form a clear representation of the actual situation. A formal survey of 40 small groceries was conducted, supplemented with 10 detailed case studies based on more extensive interviews using an interview guide and also a small number of unstructured interviews with senior government officials.

As for the study results;

- Corruption directly affecting small businesses appears to be much higher in formal areas than in informal areas
- No government representation in informal areas, as the supervisors do not pass by the businesses
- Corruption business owners experience decreased after the revolution
- Businesses that started operating after the revolution did not face any corruption incidents
• Corruption turned to be a social norm that is accepted
• Police is the main reason for street corruption, as when it got weakened, corruption automatically decreased
• Inter-ministerial collaboration, which is a difficult thing, becomes easy when they are cooperating to receive bribes
• The government officials try as much as possible to keep the businesses unregistered, so as to be able to abuse them
Chapter 2- Statement of the Problem

Corruption has always existed, but what differentiates corruption in one society from that in another was the degree of corruption among its citizens and how the leadership addressed corruption. In developed countries corruption is minimal, but in developing countries corruption is high as supported by Figure 2. Blattman argues that whenever there are new investment opportunities and the market is expanding and there are chances of doing businesses, which is the case of the developing countries, then the probability of corruption existing is high (Blattman, 2012). But when there are not a lot investment opportunities and the market is stable then there is less corruption. Data support this theory, but logic contradicts it, as whenever there are many opportunities you will eventually get your opportunity, thus you do not need to bribe any citizen, and whenever the opportunities are few then there is more incentive to be corrupt and bribe some citizens to have this specific.

Figure 2 Corruption Perception Index (CPI) produced by Transparency International (TI) in 2005

Source: TI; Accessed: April 2013
The Transparency International Corruption Perception Index of 2011 measures the perceived levels of public sector corruption based on the views of experts and business surveys. A score of 0 is the most corrupt, low score is bad and 10 is the least corrupt, high score is good. The following graph shows Egypt’s CPI index over the period of 8 years, Egypt had really bad numbers that automatically reflected the corruption rates which were always found to be high. As a matter of fact, either this data is wrong or the Egyptian society is a hypocrite and says something and does its opposite. All over Egypt during the revolution we kept on calling to combat corruption, and now after the revolution we have statistics that show that corruption increased, that was one of the reasons of why this study was conducted.
Very few studies have been done on corruption in informal areas, which host about 65% of Cairo’s total population (Piffero, 2009) and many of the residents of these informal areas work in small businesses. Another reason as to why this research is important and should be conducted is that, given that the informal areas are a fact, we have to study them to be able to deal effectively with them. For us to understand and solve the dilemma of the informal areas we should study them extensively through conducting research and collecting data on various aspects and fields related to these areas. This marginalized part of the society should have more focus by the academic scholars and researchers, as there is a great deal to be explored and revealed. Better information will enable the academic scholars and researchers to play one of their important roles, which is shedding the light, proposing feasible and studies alternatives and will draw the attention of policy makers on not only the criticality of the issue but also possible policy recommendations. When these areas receive appropriate attention and focus, through studies, their residents' lives have a
greater chance of becoming better. As these studies will make citizens of different social classes start notice their presence, then initiatives to develop these places will occur. There are some efforts, but these efforts are not on the scale they should be. Much more is needed to make a difference.

Small businesses are the driving force for any economy especially the Egyptian economy, as they constitute 90% of the private businesses in Egypt ("Ministry of Foreign Trade" 2003). Many of these small businesses are informal and are also located in informal areas, which may go together because it is expected that there is less supervision in these areas. In addition, one of the major factors is the rent of the shop, is it higher or lower compared to other areas? Along with many other reasons; even many businesses located in formal areas are not formal businesses in the sense that they are not registered and/or do not have an operations license. Due to the fact that there are rigorous requirements to be legally functioning, business owners may seek to avoid becoming formal and take advantage of the presence of corrupt government officials. Consequently, because of corruption and low regulation enforcement, any business owner can operate without having a legal permit.

Adding to all of that, there is the special circumstance of the post-revolution phase, which few scholars have yet tackled to analyze its implications and effect on business owners in formal or informal areas. Thus, this research will offer a very different set of insights into how things go in Egypt's small business sector. Consequently, adding all these variables together, tackling the topic of corruption affecting small businesses in formal and informal areas of Cairo can be seen to be extremely dynamic and constantly changing due to the political situation and the timing of conducting the research.
Chapter 3- Background

Transparency International defined corruption as the abuse of entrusted power for private gains. The Organization for Economic Cooperation and Development defines corruption as the active or passive misuse of the powers of public officials appointed or elected for private financial or other benefits. We can see that both definitions are quite similar. While these definitions apply all over the world, the attitude of the citizens of each society, how they perceive corruption, and whether they accept it themselves varies from country to country. In Egypt, it can be agreed that most people view receiving a bribe is part of corruption, but unfortunately many people keep on paying or receiving this money and justifying it for themselves. Over the past 30 years, Egypt faced many corruption issues, on all different levels, starting from high level officials till the smallest employee in the government and we can see that many key figures of the previous regime are facing trial for many different corrupt cases.

The reasons for corruption may vary from one person to another and from one culture to another, but there are two main reasons accompanied by five secondary reasons for corruption which are need and greed along with lack of transparency, accountability and consistency in dealing with corruption issues. In addition to the weak judicial and legislative systems, all of these reasons provide a strong ground for corruption to grow on (Myint, 2000). Since it is a two way interaction process then either the government official is a corrupt person or the business owner is in need for what might be an illegal service, or for a legal service that places him at the mercy of the official. Or the other way around, as the government official can be in real need for the money offered to him by the business owner who is greedy for an illegal
business advantage and seeks to receive a service that s/he should not receive, to avoid regulation, etc.

Combating corruption in Egypt has been a critical issue for many years, but gained attention after the revolution. Corruption is composed of big corruption issues referred to as grand corruption; in which corruption is associated with tens or hundreds of thousands to millions of pounds, and small corruption issues referred to as petty corruption; in which corruption is associated with a few pounds to a few thousand pounds. Unfortunately the anti-corruption agencies, individual and society based initiatives and NGOs focus more on grand corruption issues rather than focusing on petty corruption issues, although the numbers show that petty corruption issues constitute about 70% of the total corruption cases, leaving grand corruption issues with only 30% (Puddephat, 2012). Anti-corruption leaders seem to care for catching big fish, but the majority of the sea is composed of small fish.

In Egypt, there are many anti-corruption agencies, such as the Central Unit for Accounting (El Gehaz El Markazy Lilmohasabat), Administrative Control Authority, General Authority for Financial Control, The Higher Commission for Anti-Corruption policies that was introduced in the new constitution and others. There are about 15 anti-corruption agencies within the Egyptian government (Tohamy, 2012). Unfortunately these agencies do not exert enough efforts to combat corruption, which will automatically reflect on the corruption rates.

Small Businesses are recognized by the Egyptian Ministry of Foreign Trade as “the dynamic force for sustained economic growth and job creation. They are a valid crucial component of a vibrant industrial society that are flexible and can adapt quickly to changing market demands and supply conditions that help in diversifying
economic activities and makes significant contribution to export and trade” ("Ministry of Trade" 2003).

The following tables and graphs will clearly present the relationship between formal and informal small businesses, according to Central Agency for Public Mobilization and Statistics (CAPMAS) survey of 1996 for registered and unregistered businesses in Egypt; although we are now in 2013, which means that these data are outdated, they are still considered by many experts to be the most accurate and credible census for informal businesses ever produced by the Egyptian government. All of the Egyptian government follows the same definition for Small businesses, as businesses that have less than 14 employees and more than 5 and meet certain capital requirements. There are 1.5 million micro businesses units, while there are about 100,000 small businesses units and only 15,000 medium businesses units, adding to that the formal businesses represent only 1/6 of the total businesses units, while 5/6 of the businesses are informal. As years pass, the number of informal businesses increases for many reasons, two of which are the easiness to start the business without going into the bureaucracy hassle and the avoidance of paying taxes as to increase the profit margin and reduce governmental supervision.

<table>
<thead>
<tr>
<th>Size</th>
<th>Employee range</th>
<th>Number</th>
<th>Percentage of all SMEs</th>
</tr>
</thead>
<tbody>
<tr>
<td>Micro</td>
<td>1-5</td>
<td>1,533,489</td>
<td>93.0%</td>
</tr>
<tr>
<td>Small</td>
<td>6-14</td>
<td>101,289</td>
<td>6.1%</td>
</tr>
<tr>
<td>Medium</td>
<td>15-49</td>
<td>15,016</td>
<td>0.9%</td>
</tr>
<tr>
<td>Total</td>
<td>--</td>
<td>1,649,794</td>
<td>100.0%</td>
</tr>
</tbody>
</table>

Table 2 Number of economic units in formal and informal areas in 1988 and 1998

Table 2. Number of formal and informal economic units, 1988 and 1998

<table>
<thead>
<tr>
<th>Category</th>
<th>1988</th>
<th>1996</th>
<th>Average yearly increase</th>
<th>Annual percentage increase</th>
</tr>
</thead>
<tbody>
<tr>
<td>Formal</td>
<td>502,325</td>
<td>546,445</td>
<td>4,412</td>
<td>0.9</td>
</tr>
<tr>
<td>Informal</td>
<td>2,432,522</td>
<td>2,776,031</td>
<td>34,351</td>
<td>1.4</td>
</tr>
<tr>
<td>Total</td>
<td>2,934,847</td>
<td>3,322,476</td>
<td>38,763</td>
<td>1.3</td>
</tr>
</tbody>
</table>

Source: El-Mahdi, A, ELMS 98 data files, cited in Ministry of Foreign Trade (2003, 6)

Note from the source: The information in this table differs from that in Table 1 as different definitions might be used.

Figure 5 Change in number of SMEs in the years 1988 and 1998 in formal and informal areas. This is the latest data available on the formal/informal breakdown

Source: Egyptian Ministry of Trade; Accessed: April 2013

Table 3 Distribution of SMEs according to their number and employment numbers in the years 1986 and 1996

Table 3. Distribution of SMEs by number of firms, size and employment, 1986 and 1996

<table>
<thead>
<tr>
<th>Category</th>
<th>1986</th>
<th>1996</th>
<th>Number</th>
<th>Employment</th>
<th>Number</th>
<th>Employment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Micro</td>
<td>1,049,508</td>
<td>1,585,971</td>
<td>1,531,212</td>
<td>2,571,688</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Small</td>
<td>41,005</td>
<td>252,778</td>
<td>82,646</td>
<td>500,893</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Medium</td>
<td>15,073</td>
<td>267,560</td>
<td>23,454</td>
<td>410,961</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>1,105,586</td>
<td>2,106,309</td>
<td>1,637,312</td>
<td>3,483,542</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: CAPMAS 1996 census of establishments, as cited in Ministry of Foreign Trade (2003,8)
The process of starting a small business in Egypt is not an easy task to accomplish by all means. There is endless paperwork and hectic, corrupt and time consuming bureaucratic process that should be done before receiving the final approval to operate, the paper work can take months to be finished. In most situations every business owner has to be involved in a corrupt action as to ease the process of him getting the permission to work (“Business anti-corruption portal”, 2012). After this stage, comes the stage of functioning and operating, this stage is considered more significant than the previous stage as in the past one did not invest much money, could withdraw at minimal cost, and need to complete the process only one time. Once the businessperson has already invested some money s/he cannot easily go back, that is why, corruption is more in operations phase rather than the initiation phase. (“Business anti-corruption portal”, 2012)

On the other hand, if the owner refuses to adhere to the corrupt officials; demands, he becomes in a critical situation that will eventually affect his business
negatively. This research is focused on small businesses, meaning the owners are likely to be just normal Egyptian citizens who may not be well connected and will not find support from anyone. For many, their business makes a main source of income that they cannot risk. As a result, the small business owners both adhere to the corrupt officials and give them bribes or they face undesirable consequences, which, as documented in this research, can even lead to the temporary or permanent closure of their business.

There are many other factors affecting the corruption issue such as development as a process, bad/irresponsive governance, centralized institutional set up, normative administrative culture, capacities, horizontal and vertical corruption, effectiveness of combating corruption initiatives, the role of the civil society including NGOs and finally and most importantly the culture of the individual citizens.

In the past, Cairo was made up of formal districts, but the huge numbers of Egyptians migrating from rural to urban cities, who did not have enough money to pay high rents in formal districts of Cairo, created informal communities. They started forming their own communities on land on the outskirts of the city, and then built a home or even rented a cheap house and since then the informal areas have grown continuously. In the beginning the government did not acknowledge their presence and did not want to deal with it, but afterwards, when it became a critical problem the government started to react and began treating the citizens of these informal areas as normal citizens who have some rights and started with the help of the citizens to provide basic services. The citizens of these areas soon started their own small businesses within their neighborhood.
Chapter 4- Literature Review

Introduction

Corruption as a topic has been dealt with by several scholars representing various schools of thoughts and tackling the phenomenon from different angles. Some of these included looking at its various impacts on foreign investments and economic development, national and local governance systems, the cultural and ethical development of society, and in particular the impact on doing business. The latter relates directly to the research question of this study, which focuses on qualifying whether corruption increased, decreased or remained the same after the revolution in small businesses in different districts in Cairo. Going through the literature will aid in the overall understanding of corruption and set the scene for answering the research question as well as the investigative questions.

It has already been noted that there is a dearth of studies that look at doing business in informal areas. Thus this study hopes to fill this void and serve as a stepping stone for other researchers looking at informality and corruption. Thus this review will look at firstly understanding the phenomenon itself, discussing regulations to curbing it, a look at informality in particular and doing business, as well as shedding some light on corruption in Egypt. Consequently, this review can help us in knowing where the gaps that should be addressed are and be able to have a better understanding of the problem as a whole.
Discussion

Corruption
When looking at corruption a preliminary question comes to mind- Are all illegal transactions corrupt and all corrupt actions illegal? This is an important distinction that we have to understand before exploring the idea of corruption in depth. Bardhan explores both sides of this through different examples of grey situations, such as where lobbyists give gifts to politicians, or when politicians receive donations to win elections and how this may impact their future decision-making processes and implementation of legislation (Bardhan, 1997). Through these different cases, the author makes a clear distinction between immoral and corrupt transactions and how this differs from a person to the next (Bardhan, 1997). Ultimately, not all illegal transactions are corrupt and not all corrupt actions are illegal; everything is relative and depends on the situation and the person’s ethical meter. As such a generic definition of corruption incorporates immoral actions taken by people in power, and bribes are the most flagrant representation of corrupt actions.

In dissecting corruption, differentiations have been made to classify two main different types of corruption. The first is horizontal, also known as geographical corruption; or vertical, which is often referred to as sectoral corruption; and in many cases both occur simultaneously (Diamond, 2012). Horizontal corruption is that which affects all fields but on a certain level, such as that of the city. In this case, corruption is localized in a specific number of municipalities but cuts across various fields. On the other hand, vertical corruption is that in a certain ministry or field but impacts the whole jurisdiction of that particular entity. Thus corruption in the ministry of education begins from the top of the hierarchy to the bottom going through all
governorates and regions of a certain country. In Egypt, both types of corruption exist, but horizontal corruption is particularly disastrous since supervision at the local level is neither enforced nor sufficient.

Another noteworthy distinction when looking at corruption is that between centralized and decentralized modes of impact. The former occurs when only one person takes the bribe and manages everything else associated with getting a certain job done. This means that the beneficiary or businessperson will just have to pay one person a large amount of money, and then the system acts in a group manner to get the job done for him. For the decentralized form of corruption, every official deals in an individual manner regardless of how the rest of the system sets their bribes, and in which the businessperson pays less money to each person, but there are numerous people in line (Bardhan, 2003). In the Egyptian context, if a businessperson is involved in a large corruption case, then s/he may have to pay only one person to rectify the situation; but in the case of smaller issues, then it may be necessary to bribe many officials individually.

As corruption has been recognized as a chronic dilemma that faces both developed and developing countries, steps towards curbing its scope and influence have resulted in a wide array of regulation that may or may not work. The following section looks at regulatory concepts and their impact on corruption levels.

**Regulation**

Many different types of legislation and concepts have evolved in the global combat against corruption. Lately, the concept of “Good Governance” has been depicted to be one of the most effective ways to tackle corruption issues. This abstract
concept can be interpreted in many ways, but has been reduced to four main categories for action—transparency, accountability, responsiveness and rule of law (UNESCAP, 2013). In the past, it was regarded that only the government was responsible for adopting good governance techniques to combat corruption within its circles. However, currently understandings have evolved to also include the responsibility of other societal actors such as the private sector, civil society and ordinary citizens to interact with the government to apply these principles.

However, it is still the government’s burden to move towards national anti-corruption measures that would begin reform processes. Svensson argues that “most anticorruption programs rely on legal and financial institutions—judiciary, police and financial auditors—to enforce and strengthen accountability in the public sector” (2005). Svensson gives a detailed roadmap for these anti-corruption measures, but one that is not easily implemented. Since this approach entails of widespread reform efforts, if we try to envision this in the Egyptian context, it would mean a large scale coordination effort between legal and financial institutions, judiciary, and police should all somehow come together and work on a common reform agenda, which they would ideally set in partnership. This obviously is an inherently structural and institutional shake-up that must occur in order to tackle the internal issues of corruption. Many assume that for example just increasing the salary for government officials would eliminate corruption. This has been debated in the literature where advocates believe this can greatly reduce corrupt actions (Becker and Stigler, 1974), however others see a different scenario. In the case where officials are under the radar and are honest, higher pay can increase the official’s bargaining power and strengthen him while dealing with the person giving him the bribe. If the official is dishonest,
this can even increase the bribe he demands and so higher pay does not necessarily satisfy officials’ greed (Svensson, 2005).

On the other hand, by applying the four components of good governance to anti-corruption efforts, smaller issues can be tackled and results could be achieved. For example, some argue that if the access to information becomes easier, this will serve as a strong anti-corruption measure by itself, as any official if committed a wrong action can be more easily held responsible (Svensson, 2005). Transparency would also help in making available the right piece of information in a timely manner, which would enable citizens to hold the responsible official accountable for any misconduct. By working on the responsiveness of agencies, cases of misconduct would be investigated and in the long-term eventually lead to rule of law. Another tool that has been suggested is to replace public enforcement with private enforcement as a means to ensure highest efficiency and effectiveness (Svensson, 2005).

However, there have been claims in the literature that increased regulation would not necessarily reduce corruption. A study carried out by Djankov et al. (2002) in 85 countries on businesses shows that regulations that govern entry into the business world are actually benefiting politicians and bureaucrats and not the entrepreneurs (2002, p.1). A theory that supports the authors’ findings is that of “TollBooth Theory of regulation” which indicates that the only reason politicians develop these regulations and permits to begin with is so that they can have “the power to deny them and collect bribes in return for providing permits” (Djankov et al., 2002, p.3). This means that ultimately regulation may not have any social benefits as the bureaucrats or politicians can resort to “extortion- presenting the investor with insurmountable delays or repeated obstacles unless he makes a large payoff”
Therefore, from their conclusions it seemed that the stricter the regulations, higher levels of corruption were created as well as a larger size of the informal economy (Djankov et al., 2002, p.35). This analysis provided basis for the establishment of the World Bank Doing Business program, which actually promotes business deregulation. The program ranks countries based on their regulations and red tape, and provides benchmarks and improved regulations for different types of businesses such as Small and Medium-Size enterprises.

The latter types of businesses are especially vulnerable to the burdens of corruption and regulation, given their size, and even more so in the case if they are part of the informal economy. The following section will look at how informal businesses are viewed in the literature and some the burdens they face.

**Informalities**
The concept of informality has engulfed many countries as their main cities have become dominated by different forms of the phenomenon such as informal areas, informal economy and housing. For most people the word slum comes to mind when looking at these areas, but recently there has been a shift in the literature to deal with informal areas instead, as a means to combat the negative stereotyping of slums. In defining informality, numerous attempts were made but a common thread is that it is “has the dubious distinction of combining maximum policy importance and political salience with minimal conceptual clarity and coherence in the analytical literature” (Kanbur, 2009). Hence the concept which encompasses both social capital and physical spaces has great policy implications, yet they have not received enough analytical investigation. The author thus points out the fact that literature has been minimal with many contradictions as different case studies look at a diversity of
variables that differ across countries dealing with larger informality issues. One such
debate looks at whether informalities create opportunities or obstacles for
development and growth. The answer depends on the modes of socio-economic
characteristics of any given society and its acceptance to development, as well as the
relationship between informal businesses and the government, (Loayza et al., 2009).
On the one hand, some may argue that “informality is not only a reflection of
underdevelopment, but may also be the source of further economic retardation”
(Loayza, Servén, Sugawara, 2009). However as will be seen later on in the analysis of
results, the potentials of these areas has not yet been fully explored nor used.

Focusing on the informal economy in particular, it is necessary first to identify
how to differentiate between formal and informal businesses. One of these approaches
according to Heintz uses as a basis either the business’s relationship with the
government, or their number of employees, activities and functions they perform
(Heintz, 2012). Taking the thread from Heintz, this study will use the former approach
where businesses will be classified according to their relationship with the
government. This will be further operationalized for field study by looking at whether
businesses have fulfilled formalization requirements and conditions in order to be able
to legally operate in their area.

As distinctions on the field are made, it is also interesting to look at the
different degrees of the informal economy identified in the literature. A recent study
differentiates three main categories, the first being “lower-tier segment” where
residents have no or few connections to the formal economy (Roychowdhury, 2011,
p.10). The second category is the “upper-tier segment” which is “dominated by small
entrepreneurs who operate in the informal sector to avoid regulations and evade
taxes”; and a third “intermediate segment” where smaller firms are part of larger conglomerates (Roychowdhury, 2011, p.10). The prevalence of these different categories would depend on a diversity of variables such as the national climate, typologies of informal areas themselves, the dominant economic activity of the area, and most significantly the regulations imposed by the government.

An area that is tackled by a growing body of literature is how regulation affects the smaller sized firms in both informal and formal areas. In fact one study outlines how barriers to formal markets actually cause small scale entrepreneurs to continue to be stuck in informality, limit their shift to formal systems and thus in turn limits their income levels (Jacobs et al., 2006). This means that the poor because they are poor are excluded from the formal business market, and remain so as long as they cannot enter the formal economy. This study indicated that SMEs and especially those that are in informal areas are some of the most affected by the regulatory environment, and reducing these administrative barriers would create more opportunities for their growth (Jacobs et al., 2006, p.10).

A leading authority on the informal economy and its related regulations is the economist Hernando De Soto Polar. Having studied the informal economy in Peru, De Soto reached several conclusions regarding informality and government regulation. To start with he saw that the “failure of the government’s reform policies” limited growth in the formal sector (Marquez, 1990, p.209) and that the informal sector was thriving well on its own. He noted that laws have a direct impact “on the efficiency of the economic activities it regulates” in both the informal and formal sectors (Marquez, 1990, p.211). This meant that there were high costs for informal businesses to formalize if the laws were “bad”, and so he argued at the time that most of the
government regulations should be removed and replaced by the dynamics of the informal sector sectors (Marquez, 1990, p.211). He did however explore the obstacles to small-scale entrepreneurs operating in the informal sector which include lower productivity, “lack of access to infrastructure, credit markets and legal institutions” (Erickson, 2002).

He also attempted to classify the difference between firstly firms that are mostly informal in nature, where they do not have the necessary paperwork and permits; thus being out of government control completely. Secondly, he noted that there are entrepreneurs that operate in the “formal sector” that have complied with some of the rules, such as paying taxes, but may not have all of the permits (Erickson, 2002). This typology will be re-looked at in the data gathered from this study.

Therefore, in essence De Soto is an advocate for regularization and formalization, however only through creating “market-oriented reforms” that would provide the incentives for both informal and formal businesses to develop further sectors (Marquez, 1990, p.205, 2011). Other avenues for reform to reduce the regulatory burdens have been identified as seven good practices that can be adopted to organize and sustain reform programs. These include spanning implementation across several years; establishing a cross-cutting national supervisory entity; allocating and managing resources for reform; involving responsible ministries; encourage business-government dialogue; continuous impact monitoring and evaluation; and coordinate with international entities working on regulatory reform (Jacobs et al., 2006, p.4). although these good practices are all essential, yet it is important to realize the priorities and contextual situation of each country and target reforms according to the expected impact group such as investors, or SMEs or the informal sector (Jacobs et al., 2006, p.4).
What is interesting to note is the many similarities between De Soto’s work in the late 1980s in Peru and the current situation in Egypt, such as the crippling debts, precarious economies and informal violence (De Soto, 1989). This thus requires a deeper look at how his recommended solutions could also be applicable in the Egyptian case and how its informal sector can be part of the solution. Since the ultimate goals for any developing country is increased development, political stability and social justice, the informal sector can play a major role in reaching this goal (De Soto, 1989). However, to look at its potential it will be essential to look at the local context in Egypt and how corruption is intertwined with informality.

**Corruption in Egypt**

Who is to be blamed for the current corrupt situation in Egypt? Is it the government, the people, the circumstances? Svensson makes a very interesting definition for corruption origin: “Corruption is an outcome—a reflection of a country’s legal, economic, cultural and political institutions” (Svensson, 2005). He makes it a resultant of everything that makes a state, if one of these factors is weak or defective, then this will affect the well being of the state and increase the likelihood of corruption showing up. In Egypt if the legal system was strong and its sentences were executed, this would have made many citizens think before being corrupt. Actually the fact that Egypt had problems in all of these aspects supports why measures of corruption are so high. On the other hand for any developed country, a country of well established institutions, corruption is less. Corruption, in this view, is not about the society; it is about the institutions and the system.
The literature identifies some commonalities among the highly corrupt countries. “All of the countries with the highest levels of corruption are developing or transition countries. Strikingly, many are governed, or have recently been governed, by socialist governments. With few exceptions, the most corrupt countries have low income levels.” (Svensson, 2005). Egypt is still a developing country and in transition, still heavily influenced by the Abd El Nasser regime and its policies. Egypt has very low income levels and the gap between the rich and the poor is big. Accordingly, Egypt has many of the factors linked to corruption. A solution is likely to require working on all of these factors in addition to creating institutions and system that are to be followed to combat corruption.

**Research Gap**

The research in this area has either focused on corruption in its broader definition, its implications and the anti-corruption measures that should be taken to combat it. The same for the informal areas; as there is much research focusing on the informal areas in different geographical locations in the world, studying the reasons for its presence, its effect on the society and how to solve it. Unfortunately, the research on both areas together is very few, that is why this area has been identified as an area that needs further research to both propose solutions for the problem and helps other researchers to have a better understanding of the situation and build on the research. On the other hand there is extensive research on corruption and formal areas. Also there is a research gap on informal businesses in informal areas, consequently, that was a motivation to work on this research and to uncover some of the unrevealed facts.
There has been much work done on the corruption and regulation, other work on informality and regulation. But a work that discusses all three aspects all together was very difficult to find in the literature. The same for businesses, as mixing all three aspects together is very rare to find, which created a research gap that had to be filled.
Chapter 5- Methodology

The main aim of this research was to explore an important factor behind the Egyptian revolution, embedded corruption. The research undertook a comparative study on corruption affecting small businesses in formal and informal districts of Cairo before and after the Revolution. That helped in exploring how the revolution affected corruption issues in specific and draw preliminary conclusions on whether corruption increased, decreased or remained the same with regard to the business population studied. Specifically, this study focused on small businesses in a formal and an informal district of Cairo to shed light on the larger picture of corruption across this key urban divide.

With respect to all these dynamic categories affecting corruption, the research question is: did corruption affecting small businesses in formal and informal areas of Cairo increase, decrease or stay the same after the January 2011 revolution compared to the situation before the revolution.

The research methodology combined qualitative or quantitative approaches. The use of both techniques in this exploratory study provided a higher added value for the research, to provide an overall assessment of the corruption situation facing small businesses and to gain insights into this phenomenon through detailed qualitative interviews with selected SMEs.

Observations were conducted through the fieldwork, field visits, along with semi-structured interviews with a small sample of people who work in these small businesses. These discussions helped the researcher to gain more insights, reflect on historical events, understand more the norms of this segment of the society and learn
more on other incidents that happened with other business owners that were perceived as case studies. These interviews were complemented with a simple survey that targeted small business owners and managers in the two areas. Although the timing of the research is difficult because the post-revolution period is still evolving, this is a unique moment to capture in the modern history of Egypt, to track changes and determine whether these changes are going on the right track or not.

This research was conducted in three stages in three months, the first stage lasted for no longer than a month and it contained the normal basic research, finalizing few minor details like which small businesses to conduct the fieldwork at in both areas, getting the required approvals from the local authorities, building a good network in the field as to ease the stage of the fieldwork. The second stage lasted for a month and was made up of the fieldwork. Finally the third stage took about a month and included the analysis of the fieldwork along with finalizing writing the thesis.

Since the Arab world in general and Egypt in specific are being run with the security mindset of that every piece of information will affect the national security, and since this research has some information that should be gotten from governmental agencies and since it is difficult to reach the right information in a timely manner. With the same mindset, it is difficult to get right information from an Egyptian small business owner, as s/he does not want any other person know any information about his/her business. To address this, the researcher will build on already established good connections with both government officials and business owners and other contact persons to gain access to the study population.

The methodology developed to explore the research question used three different approaches, including qualitative and quantitative methods, to form a clear
representation of the actual situation. A formal survey of 40 small groceries was conducted, supplemented with 10 detailed case studies based on more extensive interviews using an interview guide and also a small number of unstructured interviews with senior government officials. The 10 interviewees were also part of the 40 surveys, which means that they did both. The interviewees were chosen based on whether there is a personal connection with them as to be sure that they will be giving truthful information.

The survey was composed of 10 questions with yes/no answers. The survey was designed to give a clearer picture of a complex issue and one where the participants may hesitate to speak frankly. The survey sample included 40 small businesses owners in Nasr City, 20 in a typical formal middle-class area (generally referred to as Nadi al-Ahly or Mantiqa Sitta) and 20 in a nearby informal area, Ezbet al-Haggana. Each group of 20 was further divided into 15 firms established before the revolution and 5 established afterwards. The firms were selected through quota/convenience sampling, due to the lack of any list from which to sample.

Ten more detailed, semi-structured interviews were conducted using an interview guide, following the same pattern as above (four established and one new firm in each area). Selection of groceries to interview was done with the assistance of personal contacts familiar with each area. The interview guide helped the researcher to guide the interview in the desired direction and not to get diverted. The interviewees were generally very willing to discuss the topic at length, and the interviewer gave them the chance to express themselves and share more stories and incidents. These enriched the study and enabled the researcher to gain a better understanding of the whole situation. Each interview lasted for an average of 30
minutes. As with the survey, the sample was businesses owners in Nasr City who opened their businesses before the revolution (8 out of 10) and afterwards (2 out of 10), with half of each group from the typical upper-middle class neighborhood described above and half in Ezbet al-Haggana, located on both main and small streets. After collecting the data, the researcher analyzed the information collected using excel and selected the case studies for more detailed description.

The study will target also 4 small businesses that were established Since it is difficult to find many people willing to give accurate information about corruption affecting their businesses due to fear when it comes to issues that might threaten their wellbeing and their source of income. A simple set of screens was adopted to select candidates for interview:

- Male
- Egyptian
- Business owner in Nasr City or Ezbet El Haggana
- Literate, to sign the consent form
- Willing to participate and speak frankly.

**Research Constraints**

In the beginning, as a researcher, the constraints should be identified, as to be able to plan how to overcome them as much as possible. There are some constraints that were very obvious due to the nature of the business and the cultural norms; like it was obvious that all of the sample will be composed of males as it is rare to find a female performing this type of job in this society. Since a personal connection is used
to be able to conduct the interviews, he might only introduce the researcher to meet business owners whom are bias to a certain opinion. The same identification process was followed for both the survey and the semi-structured interviews.

- This research will be conducted only with males, which will not allow us to see the picture from the females' perspective

- This research will be conducted on only Egyptians, which will not allow us to see how the government officials deal with non-Egyptian businesses owners, such as the Syrian refugees who now own small businesses in Cairo

- Candidates for interview are limited to firms that the researcher can reach through a direct or indirect contact. In particular, an individual working in this business and having a relationship with the researcher's family was used to gain access to several different small groceries in Madinet Nasr. This person may have had a bias in making this selection, although no such bias has been identified.

- Egyptians are still afraid and they may not give full truthful information if they are afraid of being harmed in any way, despite the anonymity of this research.

- The after revolution phase is still happening, which will not allow the research to fully explore it, but it is still rather important to document what is happening in this transitional point as to help researchers later on their work and give them a better understanding of how things evolved.
A high level government official along with a business supervisor were interviewed, to better understand the situation from their perspective.

The Egyptian government does not offer information easily and in a timely manner, which will not allow the research to fully address the problem from a quantitative perspective.

For the survey: As long as the small business owner is an Egyptian Male who is willing to give truthful information, then they are selected. The survey was asked by the researcher to the business owner and fill in the survey in writing.

**Research Processes**

- Start with designing the semi-structured interview questions for the businesses owners, governmental officials and the experts.

- Design a 10-question survey for the business owners to will help in producing data that is beneficial in understanding the phenomenon from a larger sample than the in-depth interviews.

Start working on the field research, through conducting the interviews and the survey.

  - Each interview ranged between 20 and 30 minutes, was recorded, and was preceded by having the interviewee sign the consent form.
o To be honest, it was very rare for a business owner to refuse to at least fill in the survey, but many refused to conduct the recorded interview.

o To cover this large and diverse number of business owners, then there was a research assistant who just did some of the surveys later on to be sure that the primary conclusion that was reached was right.

o The only thing that went unexpectedly was that most of the sample were talking from the heart and were extremely truthful, that they admitted whenever they did something wrong and some of them admitted although the interview was being recorded. It was not expected to reach this level of truthfulness, which is of course a good unexpected thing to happen.
Chapter 6- Description of the Data

Since this research follows the qualitative along side with the quantitative techniques. Which lead to creating both a survey and a semi-structured interview guide, as finally both of them complemented each other and helped the data to be more supported and make more sense. The semi-structured interview guide helped interviewee to have more space to express himself, share personal experiences and not to deviate from the main research topic, which helped the research in creating case studies. The survey was a yes or no survey that was composed of only 10 questions that their answers would give an indication of how things are going based on the representative samples’ diverse perspectives.

The study focuses mainly on the semi-structured interviews, from which case studies were written. The interview helped the research in gathering information regarding the owner’s story, the difficulties he faced since the beginning till now, how he overcame these difficulties, how he used to and currently deals with the government officials and then tackled the corruption issue extensively. The interviews were done with 10 small business owners, 4 small businesses in formal areas that were fully functioning before the revolution, 4 small businesses in informal areas that were fully functioning before the revolution, 1 small businesses in formal areas that were fully functioning after the revolution, and finally 1 small businesses in informal areas that were fully functioning after the revolution.

The survey was conducted among 40 small business owners representing 4 different categories. 15 small businesses in formal areas that were fully functioning before the revolution, 15 small businesses in informal areas that were fully
functioning before the revolution, 5 small businesses in formal areas that were fully functioning after the revolution, and finally 5 small businesses in informal areas that were fully functioning after the revolution. It was difficult to find businesses that started after the revolution, as their number is small, which was clearly reflected in the sample. In addition, the small businesses owners who dealt with the government officials before and after the revolution will add to the research more information and value, as they saw the development of the government dealing with them before and after.

The business owners were more open to the idea of the survey more than a recorded interview, which gave a clear example that many Egyptians are still afraid and that this barrier is not broken as many people hope. The interesting thing is that either the owner wants to share all his experiences and does not stop talking, which was a good source for the interview or just answers the question with the yes or no without even elaborating, which was a good source for the survey. The research was conducted on business owners whom the researcher has a personal connection with and the business owners whom the researcher does not know, as to be able to get as much diverse opinions as possible. Although this might be a problem for the research on whether they are telling the truth or not, that is why the research started by surveying the owners whom there is a personal connection with them, in that case they are supposed to be honest and saying the truth to be able to have a clearer image of the whole issue, after that I surveyed the owners whom there are not any personal connection with them, it was clear that their answers were exactly like the answers of the owners whom I have a contact with them and sure that they are saying the truth. This process was repeated in both formal and informal areas; so technically that added
value to the research and showed that the opinions of the owners in the same field are the same and that even if you do not know someone he will try to help you without being harmed.

The data were the same and the answers and experiences were very close if not the same. Meaning all owners of small businesses in formal areas that were function before the revolution shared the same perspective, and the owners of small business in formal areas that were function after the revolution shared the same perspective. Also the owners of small businesses in informal areas that were function before the revolution shared the same perspective, and the owners of small business in informal areas that were function after the revolution shared the same perspective. Keeping in mind, the owners were really diverse some were Christians others were Islamists other called themselves members of the Muslim brotherhood and the majority perceived themselves as normal Egyptians whom just care for the wellbeing of their businesses and want to sell their products.

What was interesting is how the owners in formal areas perceive the owners in informal areas and vice-versa. The data collected in formal area was the same but contradicted a lot with the data collected in informal area which was also the same. Every owner has very valid points on why we reached this point and most importantly is that they in some cases have some creative ideas to solve the issue of not only corruption but also other issues. Which shows that the normal citizen whom is not that well educated has answers for complex questions many governments were unable to tackle.
The questions of the semi-structured interview are:

1. Description of the whole personal story
2. Description of the project inception - how the idea was formed, the procedure, what he faced?
3. Description of the obstacles the business owner faced while implementing the project?
4. Description of his relationship with the government official
5. Corruption on daily basis - government officials’ interventions.
6. Government’s officials’ attitudes on informal, formal areas, informal and formal businesses.

The survey included 10 simple yes-no questions:

1. Do you give bribes to the government officials?
2. Do you consider (money, food, etc) that you give to the government official a bribe?
3. If your employee pays the bribe, do you reimburse him?
4. Do registered businesses face less corruption than unregistered businesses?
5. Do businesses in formal areas face less corruption than businesses in informal areas?
6. Did corruption increase after the revolution?
7. Did the government officials become more corrupt after the revolution?
8. If you were in the government official’s place, would you be corrupt just as
him?

9. If you do not pay the bribe, it becomes more difficult to do your work?

10. Do you accept community oversight over your relationship with the
government officials?
Chapter 7- Case Studies & Analysis of Data

In this chapter, a general and comprehensive case study representing different stories of different small business owners mainly grocery owners and their diverse experiences along with insights will be discussed, followed by the analysis of this case study and finally the analysis of the survey. To be able to get a better understanding of both the general and the specific perceptions of small business owners in formal and informal areas regarding corruption issues.

The names that will be used are not the real names, since there is a confidentiality agreement, but the stories are real.

Case Study1:
Mr. Mansour is the owner of a small business in Nasr City, he is married has 3 children and has an Egyptian Thanaweya Amma degree (High School Diploma). He started working with his father to open the small grocery store in the year 1988 when he was 20 years old back then, and since then he is into the grocery business, not only him, his two brothers also own other grocery stores in different districts of Cairo. So technically, their father started the business and they continued after him.

In the beginning of the interview, he started talking about how did his father think of the idea of a grocery store and then the problems they faced in order to start the business then he talked extensively on the situation before and after the revolution and shared some stories in which corruption was evident. And finally were his recommendations and how he thinks this crisis can be avoided specially he has been in the field for over 25 years.
Mr. Mansour’s father just like many other Egyptian citizens locally immigrated from Assuit to Cairo in the beginning of the 1980s seeking better chances and life for him and for his children. He firstly came to Cairo by himself looking for work, leaving his family back there in Assuit living on the revenues from the small piece of land that he inherited from his father. Mr. Mansour’s father started to work in the construction area in Nasr city when it was considered a desert, days pass and he manages to save some money and rent a small apartment in the newly constructed district of Nasr City back then. His family comes to live with him in Cairo after selling all their assets in Assuit and taking the risk of starting a new life in a new place. When Mr. Mansour’s father noticed that Nasr City is developing rapidly and there are many investment opportunities, he thought of opening a small grocery store in an internal street. As we all know people cannot stop neither eating nor drinking. His oldest son whom is Mr. Mansour was responsible for the whole issue of finishing all the paper work since he was educated and his father was not.

Mr. Mansour’s father and Mr. Mansour decided to rent the shop and not to own it, as there was some risk and Egyptians by nature are risk averse. Following that they started preparing the store through furnishing it, approach the suppliers whom will deliver the products to the store and all these logistical issues. On the other hand, Mr. Mansour was overwhelmed with the bureaucratic and corrupt environment he is dealing with. Although he discovered later after being experienced in the field, that you can start a business and sell whatever you want without having a license or any other type of permission and no one will talk to you as long as you pay the bribes to the government officials. But because he was new in the city and new in this field he wanted to start a legitimate and licensed business.
After 4 months of endless work he managed to get the approval to start the business. The funny thing is that the approval he received 25 years ago is used as the government’s consent for him operating this business. Meaning, there are three important approvals he should receive to start working, up till this point he only received two before starting operating and once he started operating he did not care for the third approval as he kept on paying bribes to the government officials. The three approvals are taxes, trade and license to work in this area, he has the first two, and as long he pays taxes although he does not have the right to have this business functioning, he can keep the business running. What is really strange is that he claims that most of the businesses in Nasr City have the exactly same situation as him, they have the first two approvals, pay taxes and bribes and this is how all of them operate.

There are two main reasons for why the business owners do not want to get the license; the first is that it costs a lot of money for them, as he tell me that in some situations it costs up to 35,000 le, which for him and his colleagues, the small business owners, consider huge amount of money. The other reason is the new law regulation regarding the safety and security, as the new law states that every shop has to do some works regarding fire-fighting systems. For them that will also cost money, so shy should they pay huge amount of money instead they can keep on paying the bribes and leave their business operating. After the revolution, he says that most of the businesses do not even care for getting any of the governmental approvals and they simply operate without being supervised by any authority.

Based on his experience he claims that only the big businesses are the ones that have the three approvals while most of the small businesses do not have a license to operate. For the point of situation adjustment for these businesses, he said that the
government tried to do that initiative a couple of years ago, in which is you do not have any of the three approvals or even the three all together go to the district authority and they will deal with the situation on individual basis and solve all the problems and give the business the approvals in order to operate legitimately. According to his interpretation, this initiative did not work for two reasons, the first was the still much money the government asked the business owners to pay and the other reason was the corrupt officials whom did not want it to work and kept on showing all the problems, of course they did that as if this initiative was to be implemented, they would not have been able to get as much bribes as they do Mr. Mansour adds.

He says that doing business before the revolution was more profitable than the situation after. He claims that citizens now do not spend as much as they used to as they do not feel safe that is why they try as much as possible to save. Actually that was not only his opinion by himself, but the opinion of many of the business owners interviewed.

For the corruption issue, he says that before the revolution there were many governmental units that continually harassed and blackmailed his business, which he had either to accept or to face trouble. Part of these problems was the pricing of the sold items as there are some products that have a unified markup and should be sold for the same price everywhere. These products are rice, oil, sugar and tea. These units included representatives of:

- The Ministry of Health, which supervises the quality of the sold food whether packed aged or not
• The Ministry of Supply, which makes sure that the prices of the sold items, are what they are supposed to be sold for, without any variations.

• The Industrial Security unit that follows the ministry of industry which supervised the safety requirements that should be observed in the shop.

• The municipality, which was supposed to supervise the approvals he receives and whether the business is adhering to the minimum requirements or not.

• The taxes authority, which reviewed the books to make sure that the business, is paying what it is supposed to pay to the country.

• The police, which had the authority to implement and execute any decision by any other agency.

The role of the police was the most important, in the view of the interviewee. For example, if the ministry of health decides that his shop sells food that is outdated, the only authority that has the power to close the store is the police, so as the police officer is generally corrupt, a business in violation can remain open and keep on selling bad food to the citizens. Conversely, if the police officer has a problem with the shop, even if there are no violations, the officer has the authority to just close the business.

Mr. Mansour shared some specific events that illustrate these problems. On one occasion he received a box of canned tuna that had a problem. Eventually it was discovered that all this batch of the tuna had the same problem, originating in the factory. He stated that the Ministry of Health representative wanted to close the shop.
although everyone knew that it was the manufacturer’s problem not the shop. Eventually after paying bribes to many officials, the owner resolved this situation. Another incident also involved tuna, in this case outdated merchandise that cannot be sold but still remained on the shelf, due to error. As a result, when the Ministry of Health representative showed up, he wanted to close the store, but after many discussions and bribes reaching thousands of pounds he managed to avoid prosecution and keep his store open. The large amounts reflected the fact that had the case gone forward, he would have paid a fine of at least LE 20,000.

Mr. Mansour indicated that he receives on average two visits by government officials per month, with every official receiving on average about LE 100 either in cash or in products. This suggests he pays about LE 2,400 in bribes per year. This is just one small shop, but if we calculate how much the bribe payments would be generated from even a single street, it would clearly reach a large sum. The street where Mr. Mansour has his shop, for example, has at least 20 small shops, which means that, if the shops on average pay the same as Mr. Mansour, this street would be paying LE 48,000 in bribes to government officials per year, and this is just one street out of hundreds in one district out of hundreds in the country. If the experience of this street is at all representative, small business owners in Egypt may be paying hundreds of millions of pounds to corrupt officials.

When he was asked whether he had gone to file a complaint or not against any of the corrupt governmental officials, he said that he thought of doing this many times before, but did not because the managers whom he will complain to and the lower-level officials are also corrupt, so nothing would happen.
In addition, he cited the danger that complaining might well cause problems for his shop as a reason why he had not filed any complaints. To illustrate the danger, he gave the example of a colleague who also owns a small business near him, who was harassed by a particular government official and forced to pay thousands of pounds in bribes. When he could not pay these amounts, he went to the manager of this particular employee and filed a complaint. He found the next day that his store had been closed by the police forces, based on a claim that he was selling outdated products not suitable for human usage. The accusation was supported by a forged laboratory test for another store. Eventually, after his store had been kept closed for about a month, in order to restore the business, he had to borrow money to pay even more bribes to the officials to allow him to reopen his business so as to be able to meet his financial commitments.

Mr. Mansour believes that small businesses face more corruption compared to medium and big businesses as these other businesses are well connected and know important and influential people. (On the other hand, others believe that these other businesses face corruption but in another form and that every type of businesses face its own type of corruption.)

He believes that after the revolution corruption decreased and sales decreased. For him he prefers the situation that is before the revolution in which sales were high although corruption was also high. Since he owns a business he cares for the profit that he can generate before anything else, so as long as sales are high, he does not care whether he faces corruption.

According to Mr. Mansour's experience and that of other small businesses owners interviewed, corruption decreased after the revolution. They attributed this,
first, to the corrupt business officials being currently afraid of the citizens and, second, to the inability of the officials to count on the support of the police forces, which they previously depended on extensively. At present, the police officer cannot protect himself and so he is in no position to go protect others. Indeed, Mr. Mansour stated that no government official had visited his business since the revolution, not only him, others face the same situation, this claim was supported by other business owners.

Mr. Mansour believes that corruption is like a virus that moves from a person to another easily, especially with the difficult economic situation many citizens are facing nowadays. He believes that the ways to overcome the corruption problem are to increase the salaries of the government officials to the extent that they are able to meet their basic financial commitments, to adopt a clear new law that punishes any corrupt individual regardless of his position and powers, and to create an unbiased authority working at the street level to supervise and combat corruption. Another idea he offered was to decrease the bureaucratic procedures involved in any dealing with the government. He also thinks that if the government creates a one-stop shop in which the business owner deals with only one employee of only one authority, this would help a lot in decreasing corruption since corruption occurs due to the direct contact and relationship between the business owner and many government officials, Mr Mansour says.

This case study demonstrates many main important points which are: corruption affecting small businesses in formal areas decreased after the revolution as the governments officials are not there to supervise because they are afraid form the business owners. It was not an easy task to start a fully functioning legal business
before the revolution as the process was expensive and very long, not to mention the corrupt officials made the process more complicated as the business owners know nothing about the laws and regulations. Doing business before the revolution was more lucrative, the average bribe per visit per employee before the revolution was 100 le.

As Egyptian Journalist Magdi Abd El Hadi supports this fact in latitude news website that the police forces are absent from the streets, just as proposed by all of the studied sample, media reports, observations and which lead to it became general public’s opinion.

**Case Study 2:**

This case study will mainly focus on a small business owner in informal area and it will be used to show and point out the differences between the formal and informal cases.

Mr. Mohamed who is a small business owner in an informal area, Ezbet El Haggana, lives in the same house in which his business functions in the ground level. He is a father for 5 children, all of whom go to school, and he says that he barely meets his financial commitments. He says that also when he came to live in Cairo many years ago, he came to live with his uncle in the same house. Mr. Mohammed's older son helps him in managing the business whenever he has free time. Mr. Mohamed is very proud of the fact that he was able to teach himself how to read and write.

As he states, the idea of establishing the grocery came to his mind when he thought of how he can add an additional source of income to his earnings. He thought
of a grocery store, a business that he will not pay any additional cost to establish, as the place is there within his building and he will not pay taxes nor bribes as the government officials responsible for supervising the small businesses in Ezbet El Haggana in fact never came to this informal area, that the government does not want to admit its presence. So whatever profit he makes will be automatically directed to him without any deductions.

As a result, he just bought the products that he will sell and started the business, that simple. His business has been functioning for more than 5 years by now, he says that before the revolution he was able to make more sales which reflected more revenues, but after the revolution the sales decreased and of course the revenues decreased. He claims that most of the businesses in the informal areas follow the same process in starting the business, just like him: just open up.

Mr. Mohamed adds that of course he faced many corruption issues before while dealing with the government official in other contexts. For example, to transfer one of his sons from the normal educational system to the vocational system, he had to pay a bribe of about 500 Egyptian pounds, just to get the required information, and when he was asked what was the reason for the official to ask for this amount of money, he said that the official told him, that once his son joins the school, he will be able to work as a craftsman and be well-paid later on. The reason for why he agreed to pay this bribe was just because he wanted his son to be transferred.

He did not face corruption in his businesses because he does not make enough money to interest the government officials compared to other businesses in other near districts and also because the government does not allocate supervisors for this
specific area, because technically it does not exist. He believes that the only solution for the corruption issue is through increasing the salaries of the government officials.

This case study demonstrates two main points which are: there is not any corruption affecting small businesses in informal areas as they make less money and the government officials are not there to supervise as this is an informal area.

**Survey**

This survey was completed by 40 small business owners, 15 formal and 15 informal businesses that existed before the revolution and 5 formal and 5 informal businesses that were established after the revolution. Recruitment of businesses for the survey focused on those that started before the revolution as their owners would best be able to compare the situation before and after. In addition, it was difficult to find businesses that opened after the revolution due to the economic situation.

![Sample Size Chart](image)

*Figure 7 studied sample size*

Also you will find out that the answers of the business owners in formal areas are the same, and the answers of business owners in informal areas are the same, but these answers are in sharp disagreement with each other.
Table 4 Survey Responses

<table>
<thead>
<tr>
<th>Question</th>
<th>Formal Area</th>
<th>Informal Area</th>
<th>Formal Area</th>
<th>Informal Area</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>N=15</td>
<td>N=15</td>
<td>N=5</td>
<td>N=5</td>
</tr>
<tr>
<td>1. Do you give bribes to government officials</td>
<td>100%</td>
<td>100%</td>
<td>100%</td>
<td>100%</td>
</tr>
<tr>
<td>2. Do you consider what you pay to be a bribe</td>
<td>100%</td>
<td>100%</td>
<td>100%</td>
<td>100%</td>
</tr>
<tr>
<td>3. If your employee pays, do you reimburse him</td>
<td>100%</td>
<td>100%</td>
<td>100%</td>
<td>100%</td>
</tr>
<tr>
<td>4. Do registered businesses face less corruption than unregistered businesses</td>
<td>100%</td>
<td>0%</td>
<td>100%</td>
<td>0%</td>
</tr>
<tr>
<td>5. Do businesses in formal areas face less corruption than businesses in informal areas</td>
<td>0%</td>
<td>0%</td>
<td>0%</td>
<td>0%</td>
</tr>
<tr>
<td>6. Did corruption increase after the revolution</td>
<td>0%</td>
<td>100%</td>
<td>0%</td>
<td>100%</td>
</tr>
<tr>
<td>7. Did the government officials become more corrupt after the revolution</td>
<td>20%</td>
<td>100%</td>
<td>40%</td>
<td>100%</td>
</tr>
<tr>
<td>8. If you were in the government official’s place, would you be corrupt just as him?</td>
<td>86.7%</td>
<td>66.6%</td>
<td>80%</td>
<td>60%</td>
</tr>
</tbody>
</table>
9. If you do not pay the bribe, it becomes more difficult to do your work

10. Do you accept community oversight over your relationship with the government officials

<table>
<thead>
<tr>
<th>Question</th>
<th>100%</th>
<th>100%</th>
<th>100%</th>
<th>100%</th>
</tr>
</thead>
<tbody>
<tr>
<td>9.</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>10.</td>
<td>100%</td>
<td>100%</td>
<td>100%</td>
<td>100%</td>
</tr>
</tbody>
</table>

**Analysis:**

Following is the analysis of the survey. It is divided into two main parts, the similarities and the differences. Regardless the question, all the similar answers disregarding whether the business was located in informal or informal area, and also disregarding whether it was opened before or after the revolution are grouped together. After that the analysis will move on to spot the differences based on when the business started operating and its geographical location.

**Similarities**

**Question 1:**

- Regardless where the business is and when was it established, 100% agree that they pay bribes to the government officials to make sure that their work goes smoothly and not to face any problems.

**Question 2:**
Regardless where the business is and when was it established, 100% consider that what they pay is considered to be a bribe. Question 3:

- Regardless where the business is and when was it established, if the employee pays the bribe, the business owner reimburse him

Question 5:

- In all cases, they believe that businesses in formal areas face more corruption than businesses in informal areas, as the businesses in formal areas make more revenues compared to the businesses in informal areas, and whenever there is a corrupt official he wants to target the businesses that can pay him

Question 9:

- Regardless where the business is and when was it established, 100% agree that if they do not pay bribes to the officials, doing business becomes more difficult

Question 10:

- Regardless where the business is and when was it established, 100% agree that they do not have a problem with community oversight over their relationship with the government, as long as this supervision will be unbiased and its main objective is to fight corruption

**Differences**

Question 4:
• All the formal area businesses, both established and new agreed that registered businesses face less corruption than do informal businesses as the probability of the official harassing them is much less, as there is some respect for law. Because unregistered businesses do not have any legal frame to support them, the probability of them being subjected to corruption is higher

• Conversely, all the informal area businesses, new or established, believe that registered businesses do not face less corruption than nonregistered businesses, as they believe that the government official does not care, all that he cares about is the profitability of any business, on average the official makes about 100 LE per visit per business

Question 6:

• All 20 formal businesses believe that corruption decreased after the revolution, although they suggest various reasons for this observation.

• Conversely, all 20 informal businesses believe that corruption increased after the revolution, since the fear barrier is broken due to the revolution not only that, it is reversed that the supervisor is afraid of the business owners. The entire sample agrees that they faced situations that supported this argument after the revolution.

Question 7:
Established formal: 80% believe that the government officials became less corrupt after the revolution, but 20% believe that the government officials are more corrupt.

There is difference between the answers in questions 6 & 7, although they should be the same, because the business owners in informal areas do not deal with the supervisors and deal with other government officials in other areas, from these experiences, they were able to shape their understanding of the issue. But for the business owners in formal areas and because they deal in direct contact with the government officials, they can judge this situation and whether the supervisors became more or less corrupt as there is direct contact between the two of them.

All the informal area businesses believe that the government officials became more corrupt, but now they do not show it as openly; in other words, if they can find a way to do it undercover, they will, but they are not as open about it as in the past.

Most of the newly-established formal businesses (60%) believe that the government officials became less corrupt after the revolution, but 40% believe that the government officials are more corrupt.

Question 8:

Established formal: 86% say that if they were in the government official's place, they would have been just as corrupt, while 14% said that they would never be corrupt regardless of the situation.
- Established informal: 67% say that if they were in the government officials' place, they would do the same, while 33% said that they would never be corrupt.

- New formal: 80% say that if they were in the government officials place, they would have done the same just like him, while 20% said that they would never be corrupt regardless the situation.

- New informal: 60% say that if they were in the government officials place, they would have done the same just like him, while 40% said that they would never be corrupt regardless the situation.

From these answers, one may conclude that unfortunately what is supposed to be wrong became part an Egyptian norm, regardless of the Revolution. That is why many do not have a problem with doing the same. Based on this research, it might well be that in reality even more of the businessmen would be corrupt given the chance, We are the people who should be blamed for such a negative situation.
Chapter 8- Research Findings

Based on the study findings; corruption exists everywhere, but corruption directly affecting small businesses appears to be much higher in formal areas than in informal areas. In the latter, there is not any kind of government representation, the business people attribute this to the reduced attractiveness of the businesses as sources of bribes, due to the lower profit generated, which means that the probability of the business owner to face corruption is less. A second factor is that, in informal areas, the inspectors who are supposed to supervise the businesses do not pass by them.

The survey of corruption affecting small grocery businesses in formal and informal districts of Cairo indicates that the corruption they experience decreased after the revolution. Although the business owners of informal businesses say that there is more corruption in general; they said that corruption that affects their business decreased. This is the opposite of many people’s personal opinions, even the author's own expectation. It was clear from the survey and interviews that the store owners see the main reason for this decrease as government officials' newfound fear of the people and the loss of their former allies in the police forces, who were critical to the officials' ability to impose legitimate fines as well as to collect bribes (constituting the "muscle" in the system). In effect, it was not the desire to be corrupt that decreased because of the revolution, as citizens decided to reform, but sadly the government officials' fear of the people that increased once they were deprived of their backup. Whereas before the revolution, the citizens were afraid of government officials, now the government officials are so afraid of the citizens that it may reach the point where some of the government officials do not perform their basic work so as not to be harmed by the people. As stated by one of the interviewees, directly after the
revolution he witnessed many situations in which the government official who was just performing his job got harassed and beaten by citizens.

Based on interviewing small business owners who started their businesses after the revolution, regardless of whether they opened up in a formal or informal area, they did not face any major corruption problems, primarily because they ignored the formal procedures entirely and no one stopped them from going ahead. If they are opening in an informal area, the business itself is not registered and they do not pay taxes, so technically for the government this business does not exist and in addition the government officials who should supervise these businesses do not pass through these areas. Even in the formal area, the officials barely pass through after the revolution and do not have the courage to ask for anything beyond what is due, if that, so as not to be harmed physically or further impeded in their work.

The situation for business start-up in informal areas appears to be unchanged since the revolution in that these businesses did not face any corruption during either period. For formal businesses, the start-up experience is quite different after the revolution compared to before. Whereas, a business owner who wished to establish a business in a formal area before the revolution was subjected to all types of corruption, starting from the point of getting the license to the everyday transactions, and, of course, if he failed to pay, then his establishment process would be deeply harmed. After the revolution the government officials barely pass and even if they see something wrong they try to avoid it, which means that they do not have the courage to ask for something that is not their right. Not only that, the business owners do not care anymore to get the tax ID or any other official document.
According to data explained earlier, which shows a major malfunction in the social norms in Egypt in that society has not only accepted a problem but actually turned it into the norm. When business owners were asked if they were put in the government official’s place, would they be just as corrupt, the answer in most cases was yes and that they understand why the official is corrupt and it is both the official’s fault and the government’s fault as the salary he receives cannot be considered a suitable salary that can help him to support his family. This shows that the Egyptian society is a corrupt society and indicates that there is a duality between being religious but at the same time accepting/tolerating corruption.

As part of this research, a high profile government official and a senior supervisor were interviewed, so as to have the picture from the government's perspective on all its levels. These interviews were obtained through personal contacts. In the event, these interviews were useless as both of them kept on denying that there is corruption and that neither they nor their colleagues are corrupt. They questioned why they are asked such questions without any supporting evidence; moreover, if any situation like that happens, then the one who should be blamed is the business owner as he is the one who pushes the government official to do this wrong action.

One of the interesting findings is the key role of the police in the street corruption. The implication is that fixing what is wrong with the police is a critical and central factor in decreasing street corruption in general. When the police was strong before the revolution, street level corruption was high, but now with the weakening of the police, the interviewees agreed that corruption levels and incidents
decreased, because the supervisors are afraid of going to the businesses by themselves and lack the ability to call in the police to punish those who refuse to pay.

A second area needing to be addressed is regulatory transparency. The business owner does not have his basic right in knowing the laws. The laws are there but where to find them and whether the official will make them available is another question. When the officials hide the laws and regulations, they are better able to do whatever they want, whenever they want; thus they have the upper hand because the citizen does not know what is in fact required or how it must be presented.

It is well known that inter-agency and inter-ministerial collaboration in Egypt is not an easy task to do. But when it comes to corruption, they apparently know how to cooperate and solve all the problems that might stand between them and being paid. This shows that when they want to cooperate they know how, but they are apparently more interested in being corrupt than in doing their work, as corruption is more lucrative.

The government officials try as much as possible to keep the businesses unregistered, so as to be able to abuse them. Even if the business owner tries to registers his businesses they make him face many problems and make it into a costly process. If he is able to achieve it, he will be able to save himself from many bribes, but an unregistered business can be closed at any time for at the will of the inspector.
Throughout the conduct of the study, and particularly in the 10 in-depth interviews, only one interviewee said that he had faced an uncorrupt official, and this was only once over the years he had been operating. This supports the view that corruption has become the norm and is pervasive. The reasons for this are many, but the battle against corruption becomes more difficult when it is the norm, not the exception. Peer pressure then becomes a barrier to improvement, as if the majority of the officials are corrupt and take bribes, anyone who wants not to be corrupt can face many internal problems from within the group.

The study found a clear differentiation between corruption in formal and informal districts. At least among the small groceries, there is no corruption in informal areas as supervisors as well as the police are not present. The business owners are not trying to register and formalize their businesses, so the government officials cannot harass them, as opposed to the situation for the businesses in the formal area. As the business owners try to register, the government official has the upper hand to harass and ask for bribes at each step. In the formal areas, the supervisors and the police are present and can harass the business owners on a daily basis. They do not dare to try this in informal areas.
Chapter 9- Implications & Recommendations

The findings of this study refute the perception that corruption increased after the revolution. On the contrary, the situation as reported by small groceries suggests that it actually decreased, through less government presence and that the officials became afraid from the citizens. The formal areas currently face less corruption, and have become in effect more like the informal areas, in contrast to the situation before the revolution, when the government officials used to harass and exploit the business owners in the formal areas while they never visited the businesses in the informal areas.

One of the implications of this study is that it helps in exploring the field of informal areas in Cairo more deeply and in understanding how the businesses owners deal with government officials and vice versa.

Reflecting on the revolution despite its pros and cons, helps to restore faith in the revolution; this study shows that the revolution was able to reduce corruption at least for the short term. It solved this problem for only short term because the problem itself was not tackled, but rather a major supporting reason for its presence. Admittedly, the way it solved this problem was wrong, which is why it can be expected to come back once things settle and the police return. If anyone wants to solve any problem s/he has to tackle the major reasons for its presence, in this case we have to work on regulating the role of the police, as well as reinforcing the citizens' willingness to stand up to corruption.
Still corruption eventually decreased and this is a finding that, although perhaps not generalizable to other situations, should be understood by everyone. Looking more deeply into the, we see that the police have to eventually come back one day, at which point corruption will come back if we do not deal with it. Actually we should exert more efforts in making the police less corrupt and less likely to abuse their powers. If we do not do that and implement regulating laws, they and the inspectors will come back more corrupt and wanting to take revenge from the people whom mistreated them for a certain period of time. Thus there will not be a long lasting effect, but we can reverse the situation and bring about a long lasting effect for the anti-corruption measures through the many reforms and developments many governmental authorities need, not only the police forces.

This research is concerned not only with the problem, its development and its reasons, but also with feasible, realistic and creative suggestions that can be easily implemented as to cause development and change Egypt needs. Some of the recommendations may be seen as standard responses to corruption, but it is hoped that others introduce creative ideas. In considering recommendations, the analyst has given preference to those that appear to be relatively less complex to implement, although none of them can be considered simple to put into effect.
Recommendations:

This study concentrated on giving a picture of corruption in formal and informal areas from the small business perspective. Although it can provide insights and some general guidelines toward overcoming the problem, further analysis to understand how street-level corruption works in Egypt and to explore solutions is needed. The challenge of defeating corruption is very complex and not easily solved.

At the same time, the research provides some pointers to specific areas needing emphasis in the search for solutions. For most of the recommendations mentioned below, further research should be done so as to have a better understanding of the whole situation and to be able to choose the best and most effective recommendation that will be implemented later on. The following recommendations are based on the research conducted and literature review, and they are divided into three main areas.

**Formalizing small businesses**

In the current situation, the business owner knows very few details about the laws and regulations governing his business and cannot defend against unreasonable requests. Of course, these laws and regulations are kept hidden by the officials so as to maximize their chances of abusing the owners. Mechanisms such as printed manuals of laws and regulations should be used to make this information available to everyone. These should be distributed to the business owners so that they are able to know what is right, what is wrong, the powers of the officials over them and many other pieces of information that will help them to avoid being easily harassed.
Accessible information so that owners know their rights and responsibilities will thus aid in eventually decreasing corruption.

As argued and advocated by De Soto, he totally supports the idea of formalizing the informal he sees that this creates more chances and thus development, and as previously mentioned most small businesses in the formal area and all small businesses in the informal area are not registered. In order to begin the processes of formalization, it will be easier to begin with the small businesses in formal areas, because although they are not registered they still pay taxes and utility bills. This means they are on the first step of formality and are ahead of businesses in informal areas, which lack everything. The process should start with reviving the government initiative for formalization that started couple of years ago and failed due to the officials’ attitudes and the large amount of money that was required from the businesses. One aspect of this solution would be to decrease the amount of money substantially, perhaps to half of what was previously required. There should also be the option of an installment scheme if the money cannot be paid all at once.

As proved by the research officials abuse their powers over the business owners and force them to pay bribes unwillingly that is why, there should be a reduction of the amount of interaction between officials and business owners. This could be done by creating a one stop shop where only one governmental entity deals with all the business owners in a particular area. This office would need a multitude of employees that will have all the paperwork needed from any governmental entity to enable the business to get registered directly. However, incentives need to be provided to get these businesses to actually register and this could take several forms. For example tax breaks could be given. Sanctions may need to be part of this; a new law can stipulate that if unregistered businesses do not register within a certain period of
time, the business would be subject to automatic closure. Unfortunately, this is what the law states, but nothing is taken into action.

On the other hand, concerning informal areas, there is firstly the issue of the government’s acceptance that these businesses do exist and that they even have more priority than formal areas due to their bad living conditions and lack of basic services. These areas will continue to exist and have to be developed as their current situation encompasses many problems that affect any economic progress. Yet it is difficult to solve this dilemma as it a long-term one. Simply starting by offering them what they lack to formalize will need large amounts of money, although given the priority, it may be that the government could divert funds from less important areas. Also many fundraising campaigns can take place to raise awareness about these areas and complement the investment by the government. This will happen when the government starts formalizing the area itself with services and then this can be followed by formalizing the businesses in this area. Once this is achieved these businesses will pay taxes that should be used to develop this area in specific. In other words, some kind of local taxes scheme can be reached so that any taxes collected will be expended on services that this specific area needs. The people living there should be treated in a better way as the human capital for any society is the main factor in its development.

Supervision and Enforcement

Effective supervision at the local level would contribute to both the formalization of informal business and to reduction of corruption in a big way. There are several ways this could be done. As it was showed by the survey that the business owners do not mind at all any community oversight over their relationship with the
government officials, which means they are open to any party that will decrease corruption, that is why we should involve both national and local NGOs in the monitoring and supervision processes. These can work alongside the normal Egyptian anti-corruption and supervisory agencies which should focus on the bigger corruption issues; but the NGOs can have limited supervisory powers, and can work on the smaller day to day corruption issues. This is important since the bigger corruption issues make up a minor percentage of the total corruption incidents, while small unreported corruption issues make up a larger percentage. This means a large amount of corruption can be tackled if there is supervision and reporting of these incidents. This is why we should make use of the already existing NGOs to help in solving a major problem. Although it is easier to target big fish, but to cause real effect and create change every citizen in the society has to feel that s/he is being supervised.

Another way to increase supervision would be to regulate the role of the police, all of the business owners agree that all of the corruption in backed by the police. This regulatory body is in fact the backbone of the Egyptian state and is always accused of having too much power, but it is also a key element of the government supervisory system. Thus, as the current transition period is meant to be a time for restructuring, although this has not yet happened, we need to make the most of this time and reexamine its role in supervising the enforcement of the law. Another mechanism must be thought of to limit this phenomenon. For example there could be the replication of the electricity inspectors who have the powers to give citizens fines. The same kind of specialized inspectors/units with the same powers can be created as supervision for small businesses. This would remove the role of the police and possibly a source of corruption. There is of course the risk that these inspectors would
simply turn into another line of corrupt officials and would add to the list of bribes businesses have to pay.

Police reform must be seen as the backbone of any effort to reduce street corruption, as we saw the clear, direct and strong relationship between the police and street corruption represented in the small business owners' lives. So as to be able to make a recommendation on how to reform it, the process and the system should be studied, especially recognizing that the police force and their members are a very unique institution and one that needs more study to be able to evaluate the options and design good solutions.

Another method that can help with reducing corruption is by creating a reward, recognition and honoring system for any citizen of the society that reports, with proper documentation, a corrupt official. This means that any business owner can be rewarded financially, honored and recognized by the government. Of course this individual has to be offered all the assurances that s/he will not be harmed by any means, which indicates that there, must be strong whistle-blowing laws and mechanisms. There could also be the option that the reporting can be done anonymously in case individuals may fear a backlash if no form of punishment will be taken against the official. There will have to be of course a whole team behind this system that will have to investigate these reports.

Since the government officials use their powers over the business owners, and the business owners cannot do anything regarding this fact. There should be a complemented whistle-blowing system, there can also be schemes started that direct a percentage of what is caught as a bribe or other corruption acts to a critical project that serves the community in which this happened. This means there can be community support in each district to catch corrupt figures and report on bribes, as
they will feel that whoever does that is affecting their own personal wellbeing and catching them will benefit their area. Preferably this money will go towards services that the poor cannot afford such as paying fees for students to go to schools, giving to hospitals so that they can offer some free medical services, to economic development projects that are generating income for youth or women, and even for infrastructure such as water and sewerage which may be lacking in informal areas. The problem with this is that the government may not want to spend the money on these areas, as well as who would actually make the decisions on where this money will go.

**Government Reform**

As Klitgaard has argued (1998), monopoly over power and decision-making is essential to corruption. The monopoly power of the municipality officials over the registration enables them to make the process as difficult for the businesses as difficult as they want to, eventually discouraging the business owner from proceeding and collecting bribes during the process. The registration process should not be monopolized by them but rather, an alternative authority to issue registration permits should be designated that cooperates and coordinates with the municipality on a regular basis to complete the full registration process.

This point leads to the broader recommendation of municipalities’ reform, an area that is very difficult to navigate through due to its complexity. Further research must be done in this area, enabling more specific recommendations to be presented.

There have been many calls for different government reforms that would help in the reduction of corruption at all levels. Since we are talking about the local level, local officials are the public servants that should be targeted with programs to reduce their interest in receiving bribes. The first would be to look at how officials do their
jobs and the conditions they serve under. Of course it is not surprising that work conditions in the government of a developing world and at the local level do not have high comfort levels. Adding to that, every employee has to feel that his work is challenging, critical and important, unfortunately many government officials feel that the work they do is not that significant and does not have any impact or make a difference. This is because in most cases the tasks turn to be repetitive and if they are in the same area employees can lose interest very easily and would find ways to abuse the situation, given their low wage rates as well. That is why the rotation employees such as for example the supervisors over the small businesses between different areas are important. This is so they will not become familiar with the people they deal with in a certain area and begin to ask for bribes. If they go to a different district every month for example, they will be a stranger to the area and will probably not have the courage to ask for bribes as they do not know how the citizens of this area would react.

In addition, there have been many ideas to change the incentive and motivation system for government employees. This is since it is no secret that public officials do not get paid well and there is injustice in the pay, promotion and evaluation systems. This will be even more the case at the local level where the municipalities receive less cut from the overall budget. Therefore as government reforms should take place with the new government, restructuring the compensation system should be on top of the policy agenda as well as investment in municipalities.

In the end however, ending corruption through government reform requires real political will. The governmental institutions that are supposed to curb corruption in Egypt are generally powerless and do not have the backing of the highest levels. If fighting corruption becomes a mindset and a strategy of the government where bribes
become unthinkable and not the norm, this will cause a great change. Many wasted resources will be regenerated and money going towards bribes can be directed towards real development, especially to those in underprivileged areas.

**Potential Future Research Areas**

This study is only the beginning of looking at a phenomenon that has not really been covered in the literature. Although there are a lot of studies and researches done on corruption within the government and in dealing with its citizens; little has been done on corruption concerning informal businesses or the relationship between corruption and location in informal vs. formal areas. In Egypt, there has been a lot of research on small and medium enterprises but again the smaller businesses receive less focus, and how they deal with the corrupt officials is also rarely looked at. Therefore, there is large space for more future research to look on the one hand at small businesses in informal areas with regards to how they operate, their sustainability, their financing, profiles of employees, other interactions with the government etc. and, on the other hand, there should also be more investigation regarding corruption in municipalities themselves, good governance systems, and local solutions in both formal and informal areas. This will help in forming a better picture at what goes on at the local level that is often disregarded in studies.
Chapter 10- Conclusion

Corruption affecting small businesses in formal and informal districts of Cairo decreased after the revolution compared to before it because the citizens lost their fear and respect of the police, on which all the other supervisory units depended. The agencies took advantage of the police force's extensive power to implement all of the corrupt actions. Once they were off the streets, the supervisors were afraid of the people, leading many of them not to go on the usual inspection visits or to limit their demands.

Although the situation is complicated and does not have one clear answer, we will not see a solution to this problem without the reformation of the system from the inside, along with adjusting the status of any small business that is not registered and does not have any papers. This must be accompanied by regulating the role of the police, because eventually one day the police will restore its power, and before reaching this point, we all should work on offering alternatives for how its powers can be regulated in a manner that does not affect the quality of the work.

Corruption increases poverty, as it decreases the chances of development and therefore blocks a vital pathway to poverty reduction and increasing the middle class. This is why the Egyptian government should reassess its policies regarding corruption, as it affects the wellbeing of the society as a whole. However, since the system is already corrupt, regardless who will stand on the top of the hierarchy, the leadership will not be able to achieve change quickly or easily: the system in many cases is stronger than the senior official. The change has to come from within the system: it is all about the system that allows the employees to be corrupt and not to
be held accountable for this corruption. This is a long and difficult process, but it is difficult to see the alternative.

In the world of the small business owner, it is apparently rare to find a non-corrupt government official. Based on all the data collected, the frequency of being free from corrupt officials was only 1:40, which supports the hypothesis that the government’s bad policies are at least partly to blame for the high levels of corruption. Being corrupt is never the first choice for anyone, but as long as the government cannot fulfill its role in supporting this person with a decent life, then he starts going in the wrong way, which will eventually affect the government negatively, or in other words, if the government took good care of its employees and its citizens, it would be on the road to success. Such an approach, although more an ideal than a practical proposal, would lead to a condition in which citizen and bureaucrat alike would feel attached and part of the whole system.

This study can encourage and help others in exploring corruption affecting other types of businesses in other geographical locations so as to generate the full picture. This field of informal areas and corruption demands additional focus from scholars as it is a critical aspect that if studied well, promises to be of considerable help to those developing policies for the development of Egypt. The relationship between these two aspects is very critical as we should not forget that if you want to create change and real development you have to think out of the box and use the unused resources, ideally change a negative aspect of the current situation into a positive aspect. This is what the government can do with its policies regarding informal areas and corruption. The starting point is to invest more in the government's
human capital and to develop the system by at least reducing the defects that corrupt the system.
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