

Egypt

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|--|-------------------------------------|------------|----------------------------|-------------|------------|
| Status Index (Democracy: 2.0 / Market economy: 2.4) | | 4.4 | Management Index | | 3.6 |
| System of government | Autocracy | | Population | 69.1 mill. | |
| Voter turnout | 25 % (Parliamentary elections 2000) | | GDP p. c. (\$, PPP) | 3,520 | |
| Women in Parliament | 2.4 % | | Unemployment rate | 7.9 % | |
| Population growth^a | 2.2 % | | HDI | 0.648 | |
| Largest ethnic minority | < 1 % | | UN Education Index | 0.63 | |
| | | | Gini Index | 34.4 (1999) | |
| Data for 2001 – if not indicated otherwise. ^{a)} Annual growth between 1975 and 2001. Source: UN Human Development Report 2003. | | | | | |

1. Introduction

In 1998, at the beginning of the period this report describes, the Arab Republic of Egypt was thought to have quite positive chances for development. The reasons were its successful macroeconomic stabilization policy, its political stability, and the great international trust Egypt had built up under President Hosni Mubarak, who had been in office since 1981. This report concludes that the transformation achievement of the past five years was only moderate, and was limited to a few economic subsegments.

Currently there is no agenda for further political liberalization in Egypt, so that the regime is still democratic in name only. The country's process of economic reform has also been delayed. Some conditions have indeed improved—in trade legislation, monetary policy, price stability and foreign debt. However, problems remain in the sluggish restructuring of the public sector, a growing budget deficit, rising risks posed by poverty and a substantial decline of economic growth. For that reason the results of transformation policies cannot be called a management success, especially in view of the country's rising demographic pressure.

2. History and characteristics of transformation

After the Egyptian revolution of 1952 that overthrew the monarchy and colonial influence, Nasser's government sought a social revolution as well, which led to an authoritarian form of rule supported by the public sector, via agrarian reform and state-capitalist economic planning. In addition to economic centralization, a

single-party system was set up that gave the president extensive veto powers. The objective of this policy of “Arab Socialism” was to apply redistribution and massive investments in education and health as an egalitarian, socially fair approach to development. Despite early economic successes in broad strata of society, economic progress began to stagnate in the 1960s.

After losing the Six-Day War, in 1967 the government came under increasing pressure to open up the political and economic system. The effects of this pressure only began emerging under Nasser’s successor, Sadat. A limited opening of markets and a multi-party system were unable to improve the cost-effectiveness of monopoly-like state enterprises, or to restructure the public sector as a private economy. As its debt grew, Egypt became financially more and more dependent on the Arab oil-exporting states. This dependency then declined with the 1979 peace treaty between Egypt and Israel, and was only partially replaced by Western support.

In addition to the country’s isolation from the Arab states in foreign policy, the Egyptian population also increasingly opposed the policy of peace with Israel and an economic policy that gave economic preference to certain strata of society. After Sadat’s assassination, his vice president, Mubarak, succeeded him as president in 1981. Since then he has been legitimized by only conditionally free elections, and rules under a statutory state of emergency.

An economic crisis, food imports and large subsidies to feed the growing population led in the 1980s to extremely high foreign debt, so that an austerity program for macroeconomic stabilization was agreed upon with foreign donor countries. While the economic situation improved in the 1990s, the restructuring of the Egyptian economy lagged. Additionally, the shrinkage of state benefits, a lack of fair elections, low participation, and the retention of political restrictions called the government into question. This uncertainty culminated (so far) in armed opposition by religious groups in the 1990s. Although this resistance was broken both militarily and with the aid of exceptional state security courts, the conditions for a farther-reaching political and economic transformation of the country are difficult. The centralized government, which has extensive authoritarian powers within nominally democratic institutions, is especially disinclined to permit political liberalization.

3. Examination of criteria for democracy and a market economy

3.1 Democracy

3.1.1 Political regime

(1) *Stateness*: Egypt's state monopoly of violence is no longer openly opposed. De jure, all citizens have the same civil rights, regardless of ethnic or religious affiliation, although in real terms there are limits on how far religious minorities can actively exercise their rights. Nevertheless, there is a clear definition of who is a citizen and who is not. Church and state are largely separated. Although Islamic law is the primary source for the administration of justice under the Egyptian constitution, the influence of Islamic jurisprudence is limited to segments of family law, estate law and foundation law.

Nevertheless, the state is unable to take action against religious dogmas in what is very largely a religious society. The fundamental administrative structures are present throughout the country, but at the regional level they sometimes function defectively, so that state benefits do not reach the entire population equally.

(2) *Political participation*: Democratic elections do not elect the president as an actual ruler, since hitherto the president has simply been confirmed in office by referendum, with no opposing candidate. Although the composition of the Parliament is determined by national elections, the president, who is also head of the ruling party, can control nominations for elections via highly developed patronage structures. Moreover, the laws governing elections and parties favor the governing party, which is able to hamper the approval of new parties. Opposition parties have been steadily losing ground in the Egyptian Parliament, and are hardly represented at all since the 2000 elections.

Outside Parliament, freedom of assembly and freedom of association in civil-society organizations are granted only where the state feels there is no reason to fear criticism of the regime. State mechanisms to control the internal management structure and financial structure make it possible to restrict the efficacy of civil-society groups. During the period under review, human rights organizations and (nonviolent) Islamic groups were affected especially severely. The government limits freedom of opinion and press freedom through the legal state of emergency and through permit procedures, and disciplines the press with the threat of punishment. Additionally, a large portion of the media is directly controlled by the governing party.

(3) *Rule of law*: The state of emergency continues, giving the president extraordinary powers, so that the executive branch has a lasting, formally safeguarded monopoly position. The president can make laws as presidential decrees, and keep politically relevant matters out of the ordinary courts. Even in

parliamentary legislation, the president controls the submission of bills and motions and the voting process via the governing party.

Although the judiciary can render its decisions largely independently, the executive often fails to implement such decisions. The executive also has the ability to control the appointment of judges. Nevertheless, in many cases the judiciary has been able to preserve civil rights. Although Parliament has the constitutional right to call officials to account and to ratify the administration of the public budget, the dominance of the governing party impedes this right from being asserted.

Hence corrupt officeholders are not prosecuted adequately, although corruption is a topic that arouses critical interest among the public. As a rule, freedoms are not blatantly abridged, although violations by the police and the military are reported occasionally. There is an inherent discrimination against women due to unequal treatment under the law. There have been occasional reports of trespasses against religious minorities.

3.1.2 Political patterns of behavior and attitudes

(1) *Institutional stability*: The executive's far-reaching powers to exert influence mean that the practical capacity of democratic institutions cannot be called adequate. Only the judiciary can preserve its independence in rendering decisions, but these decisions will not necessarily be implemented. The only opposition that might potentially be taken seriously is the nonviolent Muslim Brotherhood, but it has not been authorized as a political party and thus has been unable to achieve any influence over the work of Parliament. Nor can it be expected to embrace wholeheartedly a democratic, secular organization of the state.

(2) *Political and social integration*: Currently Egypt has a party system that is dominated by the governing party, and highly fragmented among 15 approved parties. Only four of these parties are in fact represented by a few delegates in Parliament. All parties have only shallow roots in society. Aside from political parties, Egypt has a large number of professional associations and interest groups.

Support for democracy in Egypt has not been measured by valid surveys. But because of low voter turnouts, the absence of a democratic tradition, and the utilization of democracy as a façade for authoritarian rule, consent to a liberal democracy must be estimated as low. Apart from all political concerns, Egypt has a large number of autonomously organized groups, associations and organizations that partially compensate for the state's lack of performance.

3.2 Market economy

3.2.1 Level of socioeconomic development

Social exclusion is substantial in quantitative terms (20 % to 30 % of the population lives below the poverty line). Gender discrimination is widespread, especially at the regional level, and is reflected in a GDI of 0.628.

3.2.2 Market structures and competition

The institutional foundations have been laid for market-oriented competition, with free pricing, convertibility of foreign currencies, and the transfer of profits. But the rules of the game are adjusted in favor of market participants who have access to credit and to political decision-makers. There is no independent antitrust authority or comprehensive antitrust legislation in Egypt. Other institutions, such as the Ministry of the Economy or Parliament, decide about monopoly protections on a case-by-case basis. There are state monopolies in lucrative export sectors.

Foreign trade is liberalized in principle, but some sectors are protected with trade barriers and duties. The average duty, at roughly 30 %, is higher than in comparable developing countries. The banking system and the capital market are governed by law and by the ratification of the Basel Agreements. Privately held banks, even foreign ones, are permitted, but the state banks dominate the market and deprive the credit-granting process of transparency.

3.2.3 Stability of currency and prices

Controlling inflation is a high priority in Egyptian economic policy. But the stable prices achieved during the period under report are in part also a result of the economic downturn. In absolute terms, inflation is now 2.3 %, with only slight volatility. Monetary policy has tended to be subordinated to controlling inflation, and intervention buying has caused a liquidity crisis. Poor crisis management in this case has been viewed as evidence of the central bank's dependency on the Ministry of the Economy. As a consequence, in 2002 the bank was placed directly under the office of the president. Rising government debt, projected at 6 % of GDP, suggests increasing macroeconomic instability, and intensifies the impression of a latent threat of populist changes in policy.

3.2.4 Private property

Private property is protected by law and jurisprudence for both citizens and foreigners. Adequate provisions for the protection of intellectual property have

been adopted in 2003. Private enterprises can act freely, in principle, but the granting of credits and benefits that accrue to political insiders create social barriers. Additionally, there are political barriers because of the exclusion of certain sectors of the economy from privatization (the petroleum sector, the Suez Canal). In all, only about half the state enterprises slated for privatization have been privatized on schedule and the state has retained its influence, especially in partial privatizations.

3.2.5 Welfare regime

There are institutional measures to avoid social risks, but their quality varies greatly by region and social stratum. Despite successes in a massive campaign to fight child mortality, and an increase in the average life expectancy, confidence in state-sponsored health care has declined. The national old-age insurance program is no substitute for private coverage, family solidarity and charitable organizations. There is still a risk of poverty for a substantial segment of the population. Nationwide, moreover, women have significantly less access to higher education and public office.

3.2.6 Strength of the economy

Real growth of per-capita GDP has declined significantly since 2001. This contraction was accompanied by a mixed bag of macroeconomic data. One factor that deserves criticism is the growing budget deficit, along with high unemployment, which unofficial data place at 15 % to 25 %. Overall indebtedness remains unchanged, and is increasingly founded on domestic debt. By contrast, the trade deficit has been reduced effectively through a devaluation policy and cuts in imports, without causing a significant rise in inflation.

3.2.7 Sustainability

There is an institutional and legal basis for pursuing environmental concerns, but requirements and regulations for water and air pollution tend to be subordinated to feeding a growing population and protecting the import industry and tourism. Only the industrial sector is taking the first steps toward combating environmental pollution. Measures that would entail changes in behavior by broad strata of the population, or in methods of production by the country's many small farmers, are not pursued. Large segments of the population have hardly any environmental awareness. Educational institutions are present nationwide, but differ greatly in quality from region to region. In the public educational system, instruction mostly takes place in overcrowded institutions, with poorly paid teachers and antiquated teaching methods. The level of education nationwide is low, while the illiteracy

rate is high—33 % for men and 56 % for women. Both of the country's metropolises have private educational institutions at the elementary, secondary and university levels, but only a small portion of the population can afford them.

Table: Development of socioeconomic indicators of modernization

| | HDI | GDI | GDP index | UN Education Index | Political representation of women | GDP p.c. (\$, PPP) |
|------|-------|-------|-----------|--------------------|-----------------------------------|--------------------|
| 1998 | 0.623 | 0.604 | 0.57 | 0.60 | 1.1 % | 3,041 |
| 2000 | 0.642 | 0.628 | 0.60 | 0.60 | 1.6 % | 3,635 |

Sources: Human Development Report 2000 and 2002.

4. Trend

(1) *Democracy*: Given the state's already solid monopoly on the use of force, statehood was fully protected against armed groups during the period under study. However, the effectiveness of the state and administrative structures tended to be hampered by the expanding population, which has grown around 12 % in the past five years. Political participation improved in terms of elections; for the first time, the country's national parliamentary elections were held under the supervision of the courts. This development has not been extended to municipal elections or the election of the president, the real ruler. The president's veto powers over the governing party, and the retention of the state of emergency, indicate a level of authoritarianism that remains high and an inadequate separation of powers. Additionally, through a reform of the governing party ordered from the top down, the president has been able to place his son in key party offices, thus particularly underscoring the already strong consolidation of his power through decisions on personnel policy.

Parliamentary representation of opposition parties, Copts and women reached its lowest level since the introduction of the multiparty system. Party legislation and a new law to approve civil-society actors have not lifted comprehensive restrictions, and impede political participation here as well. An approach for integrating religious groups critical of the government was rejected. There are likewise few gains to report in the rule of law, since there has been no change in the powers of the executive under the state of emergency. Nevertheless, these powers have been exercised less widely to violate freedom of opinion and civil rights.

The executive branch still enforces the courts' decisions only as it sees fit. The accountability of political actors could gain transparency through the introduction

of a system of state reporting worked out with the IMF, but the system has still not been applied. Publicity measures taken against corrupt officials in individual cases have not yet led to a structural and systematic fight against corruption. Confidence in the principle of a democratic regime, as measured by election turnouts and supportive behavior, remains low and is trending downward. At the same time, confidence in the capabilities of charitable religious institutions as a substitute for state support is growing.

(2) *Market economy*: As measured in terms of HDI, Egypt's level of development rose nearly 0.02, to 0.642, between 1998 and 2000. A strong statistical improvement of more than 0.03 over the five-year period seems possible, although an increase in absolute poverty should be noted at the same time. Institutional conditions have been mutable. Positive developments include an improvement in currency convertibility, trade legislation, control of inflation and servicing of foreign debt. The need for reform remains unchanged in the privatization of the banking sector and other state enterprises—some of which are running at a deficit—and in adopting antitrust laws.

Institutional conditions have deteriorated in foreign trade, which is encumbered by a number of new restrictions. Additionally, the share of state support for social insurance systems has risen, further burdening the budget. Because of the economic crisis, overall economic performance deteriorated as economic growth declined from 5.8 % (1998) to an estimated 0.8 % (2002). Because of rising domestic demand due to population growth, absolute growth is two to three percentage points higher for each year. The associated environmental problems and infrastructure needs reveal increasingly large gaps in the sustainability of economic development.

Table: Development of macroeconomic fundamentals (1998–2002)

| | 1998 | 1999 | 2000 | 2001 | 2002 |
|---|---------|--------|--------|--------|------|
| Real growth of GDP in % | 5.6 | 6.0 | 5.1 | 2.5 | 0.8 |
| Balance of trade in billion \$ | -10.214 | -9.928 | -8.321 | -6.935 | n.a. |
| Export growth in % ^a | 3.6 | 6.8 | 10.3 | n.a. | n.a. |
| Import growth in % ^a | 8.0 | 1.7 | 2.5 | n.a. | n.a. |
| Inflation in % (CPI) | 4.2 | 3.1 | 2.7 | 2.3 | 4.3 |
| Unemployment in % | 8.5 | 8.2 | 7.9 | 8.4 | 9.0 |
| Budget deficit in % of GDP ^a | 1.0 | 4.2 | 4.7 | 5.5 | 5.8 |
| Current account balance in billion \$ | -1.387 | -4.614 | -2.030 | -1.345 | n.a. |

Source: Economic Intelligence Unit; ^a Fiscal year ends in June.

5. Transformation management

5.1 Level of difficulty

The level of difficulty for transformation management must be considered high. Although Egypt's per-capita GNP (PPP) of \$3,530 (2001) puts it in the middle of the middle-income countries, the population's average level of education of 0.648 puts it almost in the bottom category of the UN Education Index. Additionally, despite its ethnic homogeneity, Egypt's rather religious society holds the potential for conflict between religions. There is no appropriate political representation for religious minorities. A pluralistic representation of interests is further impeded by the lack of a political voice for NGOs. Low scores for the rule of law and institutional stability imply further great obstacles to political transformation.

5.2 Reliable pursuit of goals

The government is pursuing a strategy for economic reform by prioritizing long-term goals in macroeconomic stabilization, rapid economic growth and tapping new areas for settlement. But no long-term strategy has been formulated for political transformation. To that extent, reform policy is only partially laid out, in certain segments of the economy. There is a lack of coherence, because the high cost of settlement measures is hard to reconcile in the long term with the policy of growth and stabilization.

Additionally, long-term economic policy goals tend to take a back seat to short-term gains. The consequence has been delays in the structural reform of the economy and agricultural production methods, in more effective measures to regulate population growth, and in the integration of forces critical of the government. Government policy ensures a fundamental reliability of expectations for life and business. But in regard to citizen activism critical of the regime, legal certainty is incomplete. Political decisions, especially in staffing policies, the definition of individual areas of authority, and procedures in Parliament, are apt to take surprising turns.

5.3 Effective use of resources

Resources are used inefficiently. A large public sector has achieved only a moderate outcome. Recruitment of public servants and the assignment of their duties often proceed not through regular recruiting procedures but through political directives. The lack of effective auditing has often been faulted in the past as well. During the period under examination, the use of budget funds led to a

growing budget deficit, despite massive grants from foreign donors. Yet the country was able to service foreign loans through higher domestic debt.

The administrative organization is highly centralized. There is little autonomous administration or public review. Property rights and functional markets exist.

Announced reform projects have been completed only in part. A conspicuous point here is the failure to supply the public sector with educational, health and transportation infrastructures. These infrastructures are increasingly burdened by population growth. As a solution, the government is advocating infrastructure measures to be taken by private investors on a build-operate-transfer (BOT) basis, but these can only ensure limited service to the population. International aid for this purpose is being made available to Egypt on a large scale, but the domestic bureaucracy and lack of documentation mean that not all funds reach their intended recipients. To combat corruption, the laws and constitution include integrity mechanisms for reviewing state spending policy, but in fact they are applied only in isolated cases.

In Egypt it is difficult to mobilize the cultural heritage to promote democratic practices and market rationality. The country has a long history of foreign rule, and the population is used to a benevolent but authoritarian state.

5.4 Governance capability

Failures of policy in political transformation lead to only marginal changes in Egypt. The biggest political reform of the past five years, with the involvement of the judiciary as election overseers in the 2000 parliamentary elections, was instituted after loud domestic and foreign reproaches. However, it raised no questions about the interests of the stakeholders. On the other hand, the ability to learn has been greater in regard to economic reforms, and in some aspects—such as floating the currency—has even been able to replace failed policies. But economic reforms always stop where the social costs arouse the fear that political authority might be compromised.

The government's low representativeness at the regional level has meant that the political authority to initiate and continue reforms is low in many parts of the country. The swollen, bureaucratized public sector is additionally the main reason for the misallocation of labor and capital. State enterprises running at a loss, state monopolies in export sectors, and low-yield state pension funds withhold investment funding from the capital market. At the same time, with its government privileges and advantages, the public sector draws many able workers away from the private sector.

Hence any astute choice of methods and strategies is limited to selected spheres of economic reform, mostly in policies for macroeconomic stabilization.

5.5 Consensus-building

The actors now politically relevant in the government and in Parliament agree on seeking a market-economy regime as a long-term goal. The cabinet and key positions have been filled accordingly. Businesspeople, who by definition have an interest in opening the market further, are increasingly involved in Parliament and in decision-making bodies.

The judiciary and the legislature have also been able to pursue further organization in the direction of a market economy, despite a nominally socialist constitutional tradition. Nevertheless, this must be viewed not as an overall social consensus in favor of a market-economy regime, but as an exclusion of large portions of society from the political decision-making process. This assessment is supported by the delaying of unpopular measures that the government has postponed for fear of forfeiting its legitimation. Nor is there any consensus on political liberalization; here the present government can be considered the main roadblock.

Nor, moreover, has the government been able to mitigate increasingly structural conflicts between the state and Islamic groups. The government tolerates the sense of solidarity that has been stimulated by religious communities over the past few years, as long as this solidarity remains limited to charitable objectives.

Historic injustices from past expropriations under Nasser have been reversed to a limited degree through regular court proceedings. However, excesses against forces critical of the regime are legal under the state of emergency, and are not regarded as injustices.

5.6 International cooperation

Egypt is a significant recipient of bilateral and multilateral aid, which is transferred as strategic revenue for the political stabilization of the region and to cushion structural reforms. Since only some benefits are tied to economic and political reforms, the pace of reform has slackened. The international community's great trust in Egypt is based on President Mubarak's long rule, the peace treaty with Israel, and the country's collaboration with the IMF to achieve macroeconomic stability. But the latest delays in reform efforts, rising budget deficits and the liquidity crisis have caused investment banks to lower their ratings (a "speculative country for investments").

Cooperation with neighboring states is characterized by the “cold peace” with Israel and variably friendly relations with Arab neighbors. The country actively and successfully continues to seek and build up many international cooperative relationships. For example, during the period under review, Egypt expanded its international relations by signing the EU Association Accord and joining the African free-trade agreement (COMESA) and the African Union.

6. Overall evaluation

(1) *Originating conditions:* Although Egypt has no noteworthy controversies about its territory, citizenry or cultural identity, the fundamental conditions for a transformation must be regarded as rather difficult. The reasons are widespread poverty, a low level of education, demographic pressures and the latent threat of armed resistance. Moreover, despite the nominal existence of democratic institutions, the government has extensive authoritarian powers that interfere with the rule of law and political participation.

The initial conditions were more favorable in regard to further market transformation, which is an integral part of the government’s political identity. However, its belief in a market regime has not prevented the government in the past from retaining important controlling functions over business and the banking system. Factors favoring economic transformation at the start of the reporting period were recently achieved macroeconomic stability, moderate to high economic growth, and support from foreign donor countries for further reforms and for cushioning social costs.

(2) *Current status and evolution:* After public safety and order were restored throughout the country, during the period under examination the genuine democratization of nominally democratic institutions might have been inaugurated by limiting the chief executive’s veto powers, ending the state of emergency, lifting restrictions on political participation, installing mechanisms to guarantee the integrity of officeholders, and enforcing judicial decisions more strictly. However, the outcome of the government’s reforms in terms of political transformation over the past five years has been slight. Despite improvements in election supervision and the revision of outmoded laws on freedom of association, the government’s parliamentary and political dominance has rather grown. A positive point is that the government made less use of the authoritarian powers it holds.

Transformation toward a market economy was already far advanced at the beginning of the reporting period, and some indicators actually improved (monetary policy, trade law, control of inflation). Privatization policy and the pruning of the public sector continued to drag over the past five years. Combined with the high cost of infrastructural measures and subsidies, the budget came

under greater stress. This, together with slackening economic growth, reduced business confidence. A further threat to economic transformation comes from rapid population growth, with all its risks of poverty, social exclusion and environmental damage.

(3) *Management*: The political actors' organizational achievement was limited mostly to a few sectors of economic transformation. There was no sign of a strategy for further political liberalization. Use of resources continues to be impeded by an oversized public sector, which lacks adequate efficiency because of strong centralization and a lack of transparent review mechanisms.

Additionally, the public sector is in part responsible for the difficulty of changing course to correct errors, and for the misallocation of capital and labor, thus limiting the organizational options for policy. Cutbacks in the public sector run up against substantial internal resistance, which can be considered a sign of a lack of political authority on the part of the government. The government likewise finds it very difficult to build consensus in favor of further political and economic transformation, since it has shut out broad portions of Egyptian society from political participation.

However, the government does receive support for its policies of economic transformation from international actors, who thus bolster the government's authority at home. Since the government is regarded on the foreign policy scene as a trustworthy actor in a difficult geographical environment, such support is attached to only minor conditions for political transformation.

7. Outlook

The current transformation picture reveals little political liberalization and slackening economic liberalization in Egypt. Among the key strategic tasks to be accomplished in the medium term, at the political level, is therefore a genuine democratization of the country's nominally democratic institutions. At the economic level there is an urgent need for reform in cutting back the public sector, promoting economic growth, acting quickly to combat poverty and efficiently curbing population growth.

Political transformation for further democratization first and foremost requires a policy of openness, permitting greater political participation for opposition forces both outside and inside Parliament. To accomplish this, it is urgent that restrictions on the approval of opposition parties and NGOs should be eliminated. Other points that appear necessary for the coming 2005 parliamentary elections are a reform of voting laws, to provide greater equality of opportunity for candidates, in elections and in defining voting districts.

Democratization furthermore appears necessary in order to establish a separation of powers, which is fundamentally hindered by the protracted legal state of emergency. The regional representation of local representatives should also be enlarged; at the moment the centralized decision-making structure gives these representatives only limited opportunities for autonomous administration. The goal of this democratization must be to confer greater legitimacy on a state regime that is at risk of a fundamental loss of confidence among a growing population with only limited rights to voice its opinions.

In transformation toward a market economy, first the public sector must be pruned, and economic growth based on private enterprise must be enhanced. The new industrial law, passed in 2003, which allows for a greater flexibility in the contracts of employment, is a step into the right direction. In addition to privatization (now tardy), there is need for reform in improving transparency in the lending system, and updating outmoded labor laws to be more flexible. After the successful devaluation of the local currency, the investment climate should also be improved by eliminating the trade barriers posed by the bureaucracy, duties and non-tariff restraints of trade.

However, these reforms can be cushioned in social terms only if measures to combat poverty are intensified at the same time. A quantitative and qualitative improvement in education and health care, and more widespread grants of micro loans to promote small businesses, are therefore needed and should be supported by a better application of internationally provided funding. At the same time, attention must be paid that economic growth and the struggle against poverty are not neutralized by population growth. The approach to family planning, based mostly on mere appeals, should therefore be replaced with tougher mechanisms, such as converting heavily subsidized basic support into direct transfer payments to the needy. Consideration should also be given to whether the financial and water resources that are being used in prestigious projects to settle desert areas might not better be used for a direct assault on poverty and a more effective policy on population control.