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IMPACT OF ECONOMIC REFORM POLICIES ON POVERTY IN SELECTED ESCWA MEMBER COUNTRIES: EGYPT, JORDAN AND YEMEN

UNITED NATIONS

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References to dollars ($) are to United States dollars, unless otherwise stated.

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ABBREVIATIONS

ACC	Agricultural Credit Corporation
CACB	Cooperative and Agricultural Credit Bank
CMA	Capital Market Authority
CML	Capital Market Law
DEF	Development and Employment Fund
ERSAP	Economic Reform and Structural Adjustment Programme
FAO	Food and Agriculture Organization of the United Nations
GDP	Gross domestic product
GIA	General Investment Authority
GNP	Gross national product
HASSLF	Handicrafts and Small-Scale Industries Loan Fund
HDI	Human Development Index
IBY	Industrial Bank of Yemen
IDB	Industrial Development Bank of Egypt
ILO	International Labour Organization
IMF	International Monetary Fund
IPRs	Intellectual property rights
JD	Jordanian dinar
KD	Kuwaiti Dinar
LE	Egyptian Pound
NAF	National Aid Fund
NGOs	Non-governmental organizations
SDF	Social Development Fund
SDRs	Special Drawing Rights
SMEs	Small and micro-enterprises
SOEs	State-owned enterprises
SPP	Social Productivity Programme
SSF	Social Security Fund
SSIs	Small-scale industries
UNDP	United Nations Development Programme
UNICEF	United Nations Children's Fund
USAID	United States Agency for International Development
WTO	World Trade Organization
YRIs	Yemeni riyals

INTRODUCTION

The debt crisis of the early 1980s posed a serious threat to economic stability and development prospects throughout the developing world, but was especially detrimental to the heavily-indebted countries among them. In view of the magnitude of losses involved and the prospect of cumulative defaults, it also threatened international economic stability. The mounting debt became a major concern for the creditor industrial countries and their banks, and for world financial and development organizations, particularly the International Monetary Fund (IMF) and the World Bank.

To face the widening problem, the IMF and the World Bank advocated policies and measures to be adopted by developing countries. These policies were consistent with their terms of reference, including maintaining international monetary stability and promoting development, and with their interpretation of the factors responsible for the crisis. Among these factors, inappropriate policies were considered crucial, especially the prevailing orientation towards planned economies as well as the weakness of market forces and the price mechanism in allocating resources and motivating people.

The proposed measures, known as economic reform policies and structural adjustment programmes, consisted mainly of two groups of measures: stabilization measures aiming at restoring macroeconomic balances; and structural adjustment programmes aimed at improving overall economic efficiency.

Both Egypt and Jordan adopted economic reform policies that were in line with the standards of the IMF and the World Bank, and entered into agreements with these two institutions to that effect, with clearly defined targets and timelines. The policies pursued by Yemen can be traced essentially to the period that followed the unification of the two parts of the country (the People's Democratic Republic of Yemen and the Yemen Arab Republic) in May of 1990.

While heavy external indebtedness was the major underlying cause of the need for economic reform, the problems confronting these countries went much deeper. Inappropriate and inadequate policies undermined economic performance and led to wide budgetary and balance of payments deficits, rising unemployment and high inflation rates. Of significance in this respect were the growing numbers of the poor, a problem that had to be addressed not only on humanitarian grounds, but also because of its serious economic, social and political implications.

The present study is concerned with the impact of economic reform policies on poverty, and the policies adopted to reduce poverty in three ESCWA member countries: Egypt, Jordan and Yemen[1]. The study is divided into two parts. Part one examines economic reform programmes and their effects on poverty in the three countries. It focuses on the following poverty-related concerns: economic reform policies and programmes and their effects on poverty; changing poverty lines; affected groups; unemployment, which has a strong bearing on poverty, and other adverse economic and social effects related to the implementation of economic reform; and Government expenditures on social services. Greater detail was available concerning conditions in Egypt and Jordan; coverage of Yemen was limited by the availability of information. The policies adopted to reduce poverty in Egypt, Jordan and Yemen are the subject of part two, which also contains a brief overview of the policies and measures applied to reduce poverty in other developing countries. The final section contains the conclusions and policy recommendations of the study.

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[1] For this purpose, three country case studies were prepared with the help of consultants. Alfons Aziz Kaddis, former Professor of Economics, Institute of National Planning, Cairo, served as a consultant for the preparation of the case study on Egypt; the case study on Jordan was prepared by Yousef Mansur; and Mahmoud El-Homsy served as a consultant for the preparation of the case study on Yemen. Substantive editing and consolidating were done by Nabil Al-Khatib.

PART ONE
ECONOMIC REFORM PROGRAMMES AND THEIR EFFECTS ON POVERTY

I. ECONOMIC REFORM PROGRAMMES

A. EGYPT[2]

Egypt's economic problems worsened throughout the 1980s and its economic performance was poor. This was manifested in the slowing down of overall and sectoral growth rates, aggravation of the budget and balance of payments deficits, rising unemployment, and the sharp increase in external indebtedness, particularly after the drop in petroleum prices in the mid-1980s, as can be seen from the following indicators:

(1) The rate of growth of agriculture (in real terms) declined from 3 per cent per annum, on average, during the period 1982/83 to 1986/87, to 2.7 per cent per annum during the period 1987/88 to 1991/92. Over the same period, the rate of growth of industry declined from an average of 9.2 per cent to 5.7 percent;[3]

(2) The rate of unemployment rose from 5.1 per cent in 1981/82 to 9.2 per cent in 1991/1992;[4]

(3) The trade deficit rose from 2.4 billion Egyptian pounds (LE) in 1981/82 to LE 16.8 billion in 1991/92;[5]

(4) Total external indebtedness increased from $ 30 billion in 1981 to $ 47.6 billion in 1990.[6]

In mid-1987, against the background of this dismal performance record, the Government of Egypt adopted an economic reform programme in agreement with the IMF. Two other agreements on economic reform and structural adjustment were concluded with the IMF and the World Bank in May, 1991.

The objectives of the 1987 programme were as follows:

(1) To apply a fiscal policy to reduce the State budget deficit by cutting down commodity subsidies relative to total current Government expenditures; controlling Government investment expenditures; and increasing current Government revenues, particularly taxes;

(2) To adopt a credit and monetary policy with a view to restricting monetary expansion;

(3) To eliminate the multiple exchange rate system, and apply a flexible exchange rate system;

(4) To restrict external borrowing and reach agreements with main creditor countries to reschedule foreign debts;

(5) To eliminate inefficient methods in allocating resources.

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[2] Ministry of Planning and International Cooperation, *Egypt Economic Profile 1996*; Central Bank of Egypt, *Annual Report*, various years.

[3] Ministry of Planning and International Cooperation, *National Strategy for Economic and Social Development with the Beginning of the 21st Century, 1997/98 -2016/17*, vol. I, April 1992, p. 449.

[4] Ibid., p. 454.

[5] Ibid., p. 457.

[6] Galal Amin, *Economic Policy Implications of Egypt's External Debt*, report on a research project conducted under the auspices of the Arab Centre for Development and Future Research, with the support of the International Development Research Centre (1993), pp. 29 and 39.

In early 1991, the Government of Egypt concluded stabilization and structural adjustment agreements with the IMF and the World Bank, known as the Economic Reform and Structural Adjustment Programme (ERSAP).

The main objectives of ERSAP can be briefly stated as follows:

(1) To restore macroeconomic balance. This was to include such measures as rectifying the disequilibrium in the balance of payments, reducing the State budget deficit and controlling inflation;

(2) Over the medium term, establishing a market economy in which resources were allocated mainly through price mechanisms, and the private sector played the leading role.

In the light of these objectives, ERSAP was to be implemented by the following means:[7]

(1) Stabilization measures, supported by the IMF, to restore macroeconomic balance;

(2) Structural adjustment measures, supported by the World Bank, to improve overall economic efficiency;

(3) "Safety net" provisions, supported by the Social Development Fund, with the purpose of cushioning the initial adverse effects of economic reforms on the poor.

The stabilization measures adopted by the Egyptian Government to restore macroeconomic balance and the structural adjustment measures designed to promote overall economic efficiency are reviewed below. The Social Development Fund is introduced in part two.

1. Stabilization measures to restore macroeconomic balance

(a) *Reducing the State budget deficit*

Reducing the State budget deficit has been a major goal of the economic reform policy in Egypt. In fiscal year 1991, the budget deficit amounted to about 17.7 per cent of gross domestic product (GDP); by 1996 it had declined to about 1.4 per cent of GDP.[8] This was mainly achieved:

(i) By elimination of current transfers to public economic organizations;

(ii) By elimination or reduction of various forms of subsidies;

(iii) By introduction of a generalized sales tax and improvement of tax collection;

(iv) By termination of the commitment on the part of the Government to guarantee job opportunities in the civil service;

(v) By a reduction in budget outlays resulting from the decline in the cost of servicing the external debt. This was made possible by the cancellation of a substantial portion of the debt, and a decline in interest rates (domestic and foreign).

In addition, a new policy was adopted by the Egyptian Government to encourage private investment in infrastructure and public utilities. This policy helped considerably to relieve the State budget.

The significant reduction in the State budget deficit over the past few years was a major factor in lowering the inflation rate.

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[7] Ministry of Planning and International Cooperation, unpublished paper, 1991.

[8] Ministry of Planning and International Cooperation, *Egypt Economic Profile 1996*, p. 2.

(b) *Economic liberalization measures*

These measures affected mainly the monetary and banking sector, external trade, and prices.

(i) *Monetary and banking reform*

a. Banks were free to set interest rates according to market forces;

b. Fixed rate tariffs on banking services were eliminated, and banks were free to set fees and commissions;

c. Foreign banks were allowed to establish joint-venture banks with public sector banks;

d. Foreigners were permitted to own more than 49 per cent of the capital of joint-venture banks;

e. Foreign banks were allowed to deal in local currency;

f. In 1994, a law regulating transactions in foreign currency was issued, which both legalized and liberalized the market for foreign exchange. Consequently, foreign currencies could be freely purchased and transferred abroad, and foreign exchange rates could be set according to market forces.

(ii) *Liberalization of foreign trade*

These measures included the following:

a. A gradual reduction of tariff rates;

b. A phaseout of most non-tariff trade barriers, and their planned elimination by July 1998;

c. Elimination, in general, of the anti-export bias;

d. Abolition of the annual foreign exchange budget system for public sector companies. The system, however, is still operating with regard to the Government and its agencies and organizations;

e. Beginning in March 1996, a government-sponsored programme to eliminate restrictions on the cotton trade.

(iii) *Price liberalization*

The main objective of these measures was to allow most prices in the economy to be determined by market forces.

a. In agriculture, price deregulation has been largely completed. Controls on crop area and marketing for most agricultural commodities were eliminated. Subsidies were drastically reduced for livestock feed, fertilizers and pesticides;

b. The prices of the main industrial goods produced by the public sector were liberalized, except for a short list of basic foodstuffs and such items as cigarettes, cotton yarn and pharmaceuticals;

c. Transport and energy prices were expected to rise gradually to international levels, or to levels equal to their long-run marginal cost of production.

2. *Structural adjustment measures*

(a) *Restructuring the public enterprise sector*[9]

A major step in the efforts to reform the Egyptian public enterprise sector was the enactment of Law No. 203 of 1991, also known as the Public Enterprise Law. This law was issued with a view to eliminating differences in treatment between public and private enterprises, and to enabling public enterprises to operate under market mechanisms. Law No. 203 coincided with the establishment of the Public Enterprise Office, which is responsible for setting plans and monitoring the restructuring and privatization programmes.

The following is a brief account of the rules governing the operations of public enterprises, as stipulated in Law No. 203:

(i) Profit maximization is the primary objective of State-owned enterprises (SOEs);

(ii) No subsidies are to be given to SOEs, either directly via transfers to loss-making companies, or indirectly via subsidized inputs;

(iii) No differential terms or special interest rates are to be given on loans to SOEs;

(iv) SOEs are no longer constrained in their operations by social considerations such as selling at set prices, or hiring labour in excess of their actual need;

(v) SOEs enjoy autonomy in all decisions pertaining to their operations;

(vi) SOE managers are accountable for the performance of their companies, and are subject to the same financial discipline as the managers of private sector companies;

(vii) SOEs are to be affiliated to public holding companies which monitor their performance.

Public sector reform does not contradict privatization. Restructuring a company technically or financially may facilitate its privatization later on. It also ensures that, while SOEs' assets remain publicly held, they no longer present a liability for the Government budget.

(b) *Privatization of public sector enterprises*[10]

In 1991, the Egyptian Government took its first steps towards privatization, starting with some of the smaller affiliated companies. However, aware that in the socio-economic circumstances of Egypt the privatization process could only be executed gradually, the Government proceeded cautiously. Very modest progress was achieved until the beginning of 1996. This was a result of the following factors:

(i) First, the economy was suffering from major price distortions and market imperfections;

(ii) Second, the macroeconomic environment was unstable, afflicted by major structural imbalances;

(iii) Third, the stabilization policies in the early phase of the 1991 reform programme produced a slow-down of the economy with an adverse impact on the most vulnerable groups in the population.

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[9] Ibid., p. 76.

[10] Ibid., pp. 73 and 75.

The process of privatization gained momentum with the change of Cabinet at the beginning of 1996. The new Cabinet was empowered to speed up the privatization programme. May, 1996 marked the first step in the implementation of an ambitious privatization programme. By the end of July, 1996, 28 companies were majority privatized, or with a private share greater than 50 per cent. Another 17 companies were partially privatized, with a private sector share of less than 50 per cent. In addition, the Government sold part or all of its shares in a large number of joint-venture companies.

Along with the privatization of public sector enterprises, the Government in Egypt is backing a programme to privatize the 23 joint-venture banks (JVBs). Privatization of these banks has two objectives: (1) to promote competitiveness so as to improve the quality and scope of banking services; and (2) to reduce interdependence among banks, and thereby minimize the risk of a crisis in the banking sector.

With regard to the 1997 privatization programme,[11] the Government has announced that 52 public sector enterprises will be privatized partially or totally; 34 companies will be sold to strategic investors; 11 companies will sell more than 50 per cent of their shares; and seven companies will sell 40 per cent of their shares through the stock market.

In June 1997, the Government announced that it was committed to privatization of a large number of companies every three months. It is therefore anticipated that almost all public sector enterprises will be privatized by September 1998.

B. JORDAN

Fueled by substantial foreign assistance, mainly grants, and a rapid increase in workers' remittances from the member countries of the Gulf Cooperation Council, Jordan[12] enjoyed unprecedented growth in income and expenditures during the period 1973-1984. GDP grew at an average annual rate of 11.1 per cent between 1973 and 1979; and investment and foreign savings during the same period reached 33 per cent and 57 per cent of GDP respectively.

In the period 1980-1985, the growth of the Jordanian economy was slowed down by the repercussions of the sharp drop in oil prices and revenues which emerged in the early 1980s and was exacerbated by the onset of the Iran-Iraq War, virtually eliminating the Iraqi market for Jordanian exports. Consequently, remittances and grants began to decline, and the average annual GDP growth rate decreased to less than 10 per cent as foreign savings declined to about 50 per cent of GDP during the period. Consumption decreased from 122.8 per cent of GDP during the period 1973-1979 to 113 per cent during the period 1980-1985.

The economic boom came to a halt by the mid-1980s as foreign savings declined significantly and debt-service obligations mounted. To maintain consumption levels during the second half of the 1980s, the Jordanian Government ran increasingly larger budget deficits and took on additional foreign debt. The period 1987-1988 saw increased commercial short-term borrowing from abroad as long-term credit became scarce. By 1988, Jordan had exhausted its sources of commercial loans and new sources were not on the immediate horizon.

In 1988, faced with a fiscal deficit amounting to 24 per cent of GDP, the Government turned to the domestic market to ease the downturn in the economy. Borrowing in a heavily regulated market created further distortions in the financial market and failed to stimulate the economy. Record fiscal deficits and balance of payment difficulties caused the general price level to rise drastically in 1989; the cost of living

[11] The Gulf Cooperation Council member countries are Bahrain, Kuwait, Oman, Qatar, Saudi Arabia and the United Arab Emirates.

[12] Data on the state of the economy were obtained from the Central Bank of Jordan, *Monthly Statistical Bulletin* (various issues) and the Economist Intelligence Unit, *Country Report, Jordan* (1991-1996).

index increased by 25.8 per cent. Real GDP decreased by 16.4 per cent and income per capita dropped to $1,317, a fall of more than 19 per cent from its 1985 level. The exchange rate came under heavy pressure as the foreign currency reserves of the Jordan Central Bank were depleted, and financial instability led to capital flight and bank failures.

In April 1989, the Jordanian Government adopted a five-year structural adjustment programme, which received the approval and support of the IMF and the World Bank, in order to face the mounting problems confronting the economy. The programme focused on the promotion of trade, industrial growth, financial deregulation, liberalization of the Jordanian dinar (JD), reduction of borrowing and the budget deficit, and reduction of domestic demand through direct and indirect taxes.

The results of the programme were very encouraging and the Government of Jordan showed a strong commitment to its implementation. In the first half of 1990, the Jordanian economy displayed signs of exceeding the targets set by the IMF as inflationary pressures triggered by the earlier devaluation of the dinar in 1989 eased off to 3.9 per cent (8 per cent annualized).

The Gulf war and the ensuing crisis brought the programme to a halt. The crisis resulted in the return of approximately 300,000 Jordanians from Kuwait, or a 10 per cent increase in the population; a 30 per cent unemployment rate; and a sharp rise in the demand for Government services, the supply of which had already been under the strain of a decreased budget for several years.[13] The returnees did, however, bring with them over $1.6 billion in savings that went mainly into the construction sector.[14]

The second half of 1990 saw a return to high inflation with the consumer price index for the year as a whole increasing by about 16 per cent. However, inflation dropped to 4 per cent in 1992, as the dinar stabilized following an increase in demand for the currency created by the returnees during 1990-1991.[15]

In October 1991, after the Gulf crisis had subsided, a second agreement with the IMF was reached. The agreement covered a seven-year period over which Jordan was to reduce its budget deficit (excluding grants) from 18 per cent of GDP to 5 per cent by lowering public expenditures from 44.4 per cent of GDP to 35 per cent. Consumption, which had exceeded GDP by 16 per cent in 1990 and by 18 per cent in 1991, was to be reduced to 79.5 per cent of GDP. Inflation was to fall from 10 per cent to 4.5 per cent, a goal that seemed by 1992 to be feasible, given the drop in the inflation rate in that year. Borrowing was to be reduced from 10.6 per cent to 3.5 per cent of GDP by 1998. The current account deficit, which had reached 19.1 per cent of GDP in 1990 and 14 per cent in 1991, was to be reduced to 2 per cent by 1998.

The construction boom, which commenced in 1992, led to an increase in real estate prices and in the overall price level. As a result of investment flows in 1992, GDP grew by 16.1 per cent and real per capita GDP by 10.4 per cent. The growth in GDP remained positive and significant in the following year, but it nonetheless fell to almost half of the previous year's level, reaching 5.8 per cent as the effect of spent savings receded. In 1993, the inflation rate increased slightly as production failed to keep up with the increase in private investment and consumption spending.

Between 1993 and 1996, the economy grew at an average annual rate of 5.9 per cent (one of the highest real growth rates in the region). Aggregate investment in 1996 represented 35 per cent of GDP. In

[13] United Nations, *World Economic and Social Survey 1997: Trends and Policies in the World Economy* (E/1997/50-ST/ESA/256).

[14] The construction boom of the 1980s was partly responsible for the overall decrease in productivity in that period. Jordanian investment laws favour real estate investment, as they are exempted from capital gains tax (See Gaston Gelos, Investment efficiency, human capital and migration: a productivity analysis of the Jordanian economy, unpublished report, Yale University, New Haven, March 1995).

[15] According to the World Bank, between 1987 and 1991 real per capita consumption in Jordan dropped by 36 per cent (World Bank, *Hashemite Kingdom of Jordan: Poverty Assessment 1994,* Report No. 12675-JO, pp. 8-11).

1997, the Central Bank of Jordan completely liberalized the movement of capital as a display of confidence in the adequacy of Jordan's foreign currency reserves, which exceeded the pre-set target of one billion dollars.

While the reform programme has been proceeding in a satisfactory manner, the number of poor rose from 110,000 in 1985 to 413,000 in 1990, and increased further to 589,000 in 1994.[16] Although unemployment has decreased, it has remained a double-digit problem; in 1996, the unemployment rate was 14.1 per cent.[17]

The efforts of the Jordanian Government to implement economic reform and structural adjustment were carried out under an agreement with the IMF and the World Bank, and are supported by an IMF stand-by arrangement and a trade and industry adjustment loan from the World Bank. Also, the IMF approved an extended fund facility in May 1994 (with special drawing rights, or SDRs, of 127 million), and the World Bank provided an energy sector adjustment loan and an agricultural sector adjustment loan. Adjustment efforts have also been supported by successive debt reschedulings (March 1992 and July 1994) through the Paris Club; a debt and debt-service reduction operation with the London Club; a debt buy-back arrangement with the former Soviet Union; and official bilateral debt reductions by France, Germany, the United Kingdom of Great Britain and Northern Ireland, and the United States of America in the amount of approximately $800 million.

Four principles were fundamental to achieving the goals of the economic reform programme:

(1) Redefining the role of the State and creating a more dynamic private sector through privatization;

(2) Increasing dependence on the domestic economy, rather than remittances and foreign aid, by developing a more competitive economy;

(3) Creating an investment-friendly economy to attract investments;

(4) Providing a social safety net and compensatory mechanisms to help the poorer segments of society to overcome short-term hardships and adjustments.

The main elements of the programme included reducing public expenditures and increasing revenues to lower the budget deficit; reforming the water, energy and agricultural sectors; restructuring the tariff and tax systems; reducing credit expansion to levels consistent with desired inflation levels; and removing restrictions on foreign exchange and domestic and foreign investment.[18]

The following were the main components of Jordan's Economic Reform Programme:

(1) <u>Macroeconomic stability</u>. This was required in order to provide the basis for the structural and sectoral reform process which would reduce dependence on external financing, address long-term structural imbalances, and improve prospects for sustainable long-term growth and development. The Government of Jordan was to strengthen saving incentives through tax reform and rationalization which would boost public sector savings. Additionally, indirect monetary control tools, such as open-market operations, were adopted and measures were taken to reduce the cost of financial intermediation;

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16 World Bank, *Claiming the Future: Choosing Prosperity in the Middle East and North Africa* (Washington, D.C., 1995).

17 Central Bank of Jordan, *Thirty-Third Annual Report 1996* (Amman, 1997).

18 United Nations, *World Economic and Social Survey 1997: Trends and Policies in the World Economy* (E/1997/50-ST/ESA/256), p.143.

(2) Trade liberalization and greater integration into the world economy. This was to be achieved by means of incentives to firms to improve efficiency and technical standards, in order to increase exports, especially to new and more sophisticated markets. Several steps have been taken in this regard, including:

(a) The commencement in November, 1996 of accession procedures to the World Trade Organization (WTO);

(b) Initiating a free trade agreement with the European Union in April 1997;

(c) Reducing the level of dispersion in tariffs and eliminating most tariff exemptions;

(d) Establishing internationally recognized and accepted product standards to encourage conformity of exports with world demand in non-traditional markets;

(e) To encourage overall export activity, streamlining customs procedures and improving the duty-drawback system as well as temporary admission mechanisms.

(3) Financial sector deepening. This would provide a group of financial services to help mobilize domestic savings and motivate real sector growth, channel savings to optimal investment, and enable the financial sector to attract investments, thereby becoming a growth industry in its own right. The Government initiated the measures given below to promote financial sector deepening. This included increasing banking competition through mergers, and removing market distortions such as special privileges to some banks:

(a) Reducing credit subsidies;

(b) Enhancing banking supervision;

(c) Developing secondary markets for long-term papers;

(d) Facilitating greater access by companies to corporate bonds;

(e) Developing non-bank type financial institutions (leasing, factoring and venture capital companies);

(f) Modernizing and computerizing trading in shares;

(g) Removing restrictions on foreign exchange transactions;

(h) Facilitating the development of contractual savings institutions and promoting their role as future providers of long-term funds to encourage long-term industrial lending.

(4) Redefining the role of the State in the economy. The measures included privatization and encouragement of the private sector to assume a greater role in the economy, while liberalizing the regulatory framework affecting business entry and exit, operation and pricing policies. The Government separated the regulatory, supervisory and business operation functions in several economic sectors. On the legislative side, the following was accomplished:

(a) In 1995, the Parliament approved the Telecommunications Law, creating an independent regulatory body and opening the telecommunications sector to competition;

(b) The Parliament also amended the General Sales Tax Law and the Income Tax Law;

(c) A new investment law was enacted in 1995 (see part two, chapter II);

(d) The Customs Law was revised and approved by the Cabinet;

(e) New companies and securities laws were enacted as temporary laws until the Parliament could reconvene in its ordinary session towards the end of 1997;

(f) Several measures were taken in the area of privatization:

(i) The Government divested itself of many of its assets in hotels, and began the sale of 26 per cent of its shares in the recently privatized Jordan Telecommunication Corporation;

(ii) Offers for the management of the ma'in Health Spas were solicited and are under review;

(iii) The Government was also considering the sale of some of its shares in the mining and energy sectors and in the Jordan Cement Factories Company;

(iv) The Executive Privatization Unit, established in 1996, was expected to draft a plan and work programme for the Kingdom in 1997.

(5) Political and social stability. The Jordanian Government is committed to ensuring that the economic reforms take place in a politically and socially stable climate by providing compensatory mechanisms for the poor and others who may suffer as a result of the reforms. In the short-term, the Government aims to improve the efficiency of the existing social safety net. In the medium to long-term, broad-based economic growth is assumed to be the most efficient means of alleviating poverty. This premise is consistent with the thesis that policies and programmes specifically aimed at alleviating poverty are also important, even though policies designed to foster economic growth significantly reduce poverty in the medium and long-term.[19]

C. YEMEN

Yemen is classified by the United Nations as a least developed country, a denomination indicative of the prevalence of poverty throughout this country. The extent of poverty in the country may be gauged from the fact that in 1994, based on per capita GDP, it ranked 134 out of 175 countries, and at the same time ranked 148 out of 175 on the Human Development Index (HDI) prepared by the United Nations Development Programme.[20]

In addition to suffering from poverty rooted in traditional causes, over the last two decades Yemen has experienced a series of natural disasters (floods, droughts and earthquakes) and socio-political upheavals (the military conflict in the south in 1986 between the two States then known as the People's Democratic Republic of Yemen and the Yemen Arab Republic, and the military events of 1994). Further economic shocks shook the country in the wake of the Gulf crisis, which resulted in the return of hundreds of thousands of Yemeni workers and a sudden and sharp drop in foreign exchange remittances, a mainstay of the economy. Inflation has also contributed to widening income and wealth disparities among groups in society.

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[19] Michael Bruno, Martin Ravallion and Lyn Squire, "Equity and growth in developing countries: old and new perspectives on the policy issues", Policy Research Working Paper No. 1563 (World Bank, Washington D.C., 1996).

[20] The HDI is based on three key indicators: life expectancy, educational attainment and real GDP per capita in purchasing power parity (PPP) dollars. For details see UNDP, Regional Bureau for Arab States, *Preventing and Eradicating Poverty: Main Elements of a Strategy to Eradicate Poverty in the Arab States* (New York, 1997), p. 14.

These events have had a very depressing effect on the Yemeni economy and its potential for growth. While gross national product (GNP) in current prices grew sharply in terms of the domestic currency from 96.8 billion Yemeni rials (YRls) in 1990 to YRls 278.1 billion in 1995, it was more than halved in terms of United States dollars, dropping from $ 6.96 billion to $ 3.35 billion over the same period.[21]

The economic reform policy[22] currently being implemented in Yemen was adopted at the time of the country's unification in May of 1990, although some aspects of it were in effect prior to this date, and others were introduced subsequently.

The reform policy is anchored in the principles of a market economy, reflecting the shift in policy from central planning and economic management to a free-market regime. Its main objectives are centered around achieving economic growth and development through investment expansion, to be carried out mainly by the private sector. The expansion in private sector investment activity is to be facilitated by appropriate incentives and by the provision of infrastructure, trained labour and other supportive measures. In addition, the new economic policy also envisages selling or leasing establishments to the private sector, including industrial projects, to reduce the size of the public sector. It also seeks to encourage the private sector to play a greater role in managing joint-sector projects.

The expansion in private sector investments and activities is expected eventually to expand employment opportunities and produce a substantial increase in domestic output and income, thus contributing, directly and indirectly, to the reduction of poverty. Supportive activities to be undertaken by the State would complement the role of the private sector in this regard.

With respect to poverty reduction, the reform policy has implicitly assumed that the issue can be resolved in due course by means of sustained economic growth, on the one hand, and social development, on the other.

As noted above, the task of economic growth is entrusted essentially to the private sector, supported by the State through the provision of infrastructure (physical and institutional) and promoted by means of such incentives as Investment Law No. 22 of 1991.

With respect to social development, the task seems to rest entirely with the State. The Government of Yemen has expressed its intention to expand its role in the field of social development, committing itself to stepping up and improving public services in the field of education, labour, training and health care. These services, which represent an investment in human capital, are to be extended to society as a whole.

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21 Yemen, Ministry of Planning and Development, Central Statistical Organization, *Statistical Yearbook–1995*, p. 350.

22 Additional details may be found in *National Building Programme and Political, Economic, Fiscal and Administrative Reform*, published by the Office of the Prime Minister of Yemen and adopted by the Parliament in December 1991 (in Arabic); also in Yemen, Ministry of Planning and Development, *General Economic Memorandum*, Round-Table Conference, Geneva, 30 June-1 July 1992 (in Arabic); and in Yemen, Ministry of Planning and Development, *Investment Law No. 22 of 1991.*

II. CHANGING POVERTY LINES[23]

Despite the absence of an officially accepted definition and estimate of the poverty line, and taking into account the element of subjectivity as well as significant variations in the results of different estimates, available data indicate that poverty, in terms of the percentage of the population living at or below the poverty line, has increased sharply over the past decade in both Egypt and Jordan. A similar conclusion may be surmised from the available data for Yemen. The poverty line in monetary terms also increased significantly over the same period.

A. EGYPT

The poverty line in Egypt has been calculated a number of times since 1971. Two of these attempts, conducted by Karima Korayem for the years 1981/82 and 1990/91, are considered below (table 1).

Korayem estimated income at the poverty line for the year 1981/82 at LE 1,297.3 for an urban family composed of 5.2 members, and at LE 1,020.6 for a rural family composed of 5.8 members. Per person income at the poverty line amounted to about LE 249.5 in urban areas, and to about LE 176 in rural areas.

For the 1990/91 estimates of the poverty line, a different average family size was assumed: 4.6 members for the urban family and 5.2 members for the rural family. The study indicated that income at the poverty line for an urban family was LE 3,795.9, and LE 3,713.3 for a rural family. That is to say, the poverty line per person amounted to about LE 825.2 in urban areas, and to about LE 714.1 in rural areas.

In the light of these estimates, and using the per capita income distribution provided by the "Household income, expenditure and consumption sample survey" for the years 1981/82 and 1991/92, Korayem estimated that 30.4 per cent of the urban population in Egypt, and 27.7 per cent of the rural population lived at the poverty line or below, in 1981/82. In 1990/91, the percentage of urban and rural population living at the poverty line or below increased to 49 per cent and 64.5 per cent respectively (table 1).

The figures in table 1 show that the percentage of both urban and rural population living at the poverty line or below increased considerably during the period 1981/82 -1990/91, particularly in rural areas. While less than one third of the population in both urban and rural areas was living at the poverty line or below in 1981/82, about two thirds of the population in rural areas, and one half of the population in urban areas was living at the poverty line or below in 1990/91.

B. JORDAN

Jordan does not have an officially accepted definition of the poverty line. Several yardsticks to measure the extent of poverty in Jordan have been employed in the past; in its 1994 report on poverty in Jordan, the World Bank documents five poverty lines that have been used to determine the poverty level.[24] These poverty lines, all of which contain some degree of subjectivity, are described below:

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[23] The poverty line expresses the monetary equivalent of the totality of goods–including non-monetary incomes and transfers–that constitute the basic needs and entitlement of people. It is used as a base line to identify poor individuals and families whose total income is below the specified monetary equivalent. Furthermore, a distinction is made between an upper poverty line–which reflects the monetary equivalent of the totality of basic needs including food, clothing, health, shelter and education–and a lower poverty line, which reflects food requirements only (UNDP, *A Profile of Sustainable Human Development in Lebanon*, January 1997), p. 52.

[24] World Bank, *Hashemite Kingdom of Jordan: Poverty Assessment 1994*, Report No. 12675-JO.

(1) Al-Suqur's poverty line which presupposes a basket of nutritional and non-food items estimated in 1987 prices;[25]

(2) Two poverty lines contained in the *1990 World Development Report*: a general poverty line of $370 per capita, and a severe poverty line of $275 per capita;[26]

TABLE 1. EGYPT:PERCENTAGE OF POPULATION LIVING AT POVERTY LINE AND BELOW IN 1981/82 AND 1990/91

Year	Poverty line (LE)				Population at poverty line or below (percentage)	
	Urban		Rural			
	Per family	Per person	Per family	Per person	Urban	Rural
1981/82	1 297.3	249.5	1 020.6	176.0	30.4	27.7
1990/91	3 795.9	825.2	3 713.3	714.1	49.0	64.5

Sources: Karima Korayem, *The Impact of Economic Adjustment Policies on the Vulnerable Families and Children in Egypt* (Cairo, Third World Forum [Middle East Office] and UNICEF, April 1987), p. 30; Karima Korayem, *Poverty and Income Distribution in Egypt*, translated by Saad Abdel-Halim, (Cairo, Third World Forum [Middle East Office], June 1994), (in Arabic), p. 2.

(3) Two measures of relative poverty to gauge the expenditures of the poorest 10 per cent (decile poverty line) and 20 per cent (quintile poverty line) to better represent the characteristics of the low income earners.

The World Bank, utilizing the Income and Expenditure Survey of 1992 and that of 1986/87, which contained detailed household-level expenditure information, and using World Bank methodology, estimated a poverty line for Jordan using each of the five different poverty line measures above.[27] The Bank went a step further by utilizing the "Employment, unemployment, returnees and poverty survey 1991" to provide two additional poverty lines.

The seven poverty lines thus estimated varied significantly, depending upon the method employed. Using Al-Suqur's absolute poverty line, the poverty line measured JD 148 per capita in 1986/87 and increased to JD261 per capita in 1992, with the headcount index (the percentage of the population whose expenditures fall below the poverty line) rising from 3 per cent to 14.9 per cent over the same period. Similarly, the World Bank's severe and general poverty lines rose from JD59 and JD79 per capita respectively, to JD104 and JD139 per capita over the period. The lowest decile rose from JD197 to JD223 per capita, and the lowest quintile increased from JD246 to JD294 per capita.

A more recent attempt[28] put the general poverty line at JD137 and the severe poverty line at JD102, and estimated that in 1991 17 per cent of the population was poor.

The conclusion that can be drawn from the computations and comparisons using the various measures of poverty above is that, regardless of the measure used, poverty was clearly more widespread in

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[25] M. Al-Suqur, "The poverty line in Jordan", in *Income Distribution in Jordan*, edited by K.A. Jaber, M. Buhbe, and M. Smadi (Boulder, Westview Press, 1990).

[26] World Bank, *World Development Report 1990* (New York, Oxford University Press, 1990).

[27] Ibid.

[28] Zafris Tzannatos, "Distributional issues in a small Middle Eastern economy: what accounts for labour earnings inequity and what labour market policies can help reduce poverty", paper presented at the Economic Research Forum for the Arab Countries, Iran and Turkey Conference on Labor Markets and Human Resource Development, Kuwait, 1996).

1992 than it was in 1986/87, and the poverty gap (the average level of expenditures necessary to raise a poor person to the poverty line, expressed as a percentage of the poverty line) has widened.[29]

Overall, one can surmise that poverty has increased in Jordan in spite of the Economic Reform Programme, with this caveat: for all estimates, the data, which went only as far as 1992, could not take into account the full impact of the Jordanian population repatriated after the Gulf war. Therefore, this conclusion should be considered tentative until new data become available to determine whether poverty has increased or not. Nonetheless, one can surmise that the percentage of the poor in Jordan may have fallen,[30] or may not have risen by as much as indicated above, because the returnees were highly trained and had greater savings than the resident Jordanians; incomes in the member countries of the Gulf Cooperation Council are typically higher than in Jordan. Additionally, unemployment and poverty would be expected to be higher among the non-repatriated population, as they would have been crowded out of their jobs or replaced by returnees. This effect would be offset by the fact that a significant portion of the work force is employed in the public sector and therefore would be unaffected, at least in the short run, by the influx of labour.

A proper assessment of the effects of the Economic Reform Programme on poverty will have to wait until more comprehensive and more recent data become available. Moreover, the programme, which is primarily aimed at removing market distortions and increasing productivity, could be expected to impact poverty and unemployment in the medium and long term.

C. YEMEN

Unlike the case of Egypt and Jordan, where several attempts have been made to estimate the poverty line at different points of time, in Yemen no such estimates appear to have been made. However, it is safe to assume that poverty is deep-rooted and widespread in Yemen in view of the very low per capita income and the country's low standing with respect to other internationally recognized development indicators, resulting in its designation as a least developed country.

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29 In spite of the imperfections in the data used (as indicated in the World Bank study *Hashemite Kingdom of Jordan: Poverty Assessment 1994*, Report No. 12675-JO, p. 12), the agreement of the various measures on the direction, if not the magnitude of change is sufficient to demonstrate the increase in poverty in Jordan. Additionally, recent attempts to estimate the percentage of the population living at or below the poverty line have produced estimates of over 21 per cent. The Government of Jordan, with the help of the United Nations Development Programme, was to initiate a study in 1997 to estimate the poverty line using the more recent "Income, expenditure and household survey 1996", the results of which have not yet officially been published.

30 World Bank, *Hashemite Kingdom of Jordan: Poverty Assessment 1994*, Report No. 12675-JO.

III. AFFECTED GROUPS

Economic reform measures are designed with a view to improving economic performance and the welfare of citizens in the medium and long term. In the short term, however, they entail the kind of adjustments that often impact adversely the vulnerable groups in society, including the poor. For each of the countries considered in this study, the groups affected by economic reform policies may be identified by analyzing the incidence and implications of these policies for various segments in society.

A. Egypt

Reducing the State budget deficit, a main policy objective in the economic reform package, to be achieved primarily by reducing both current and capital Government spending, affects wide segments of the population. For Government employees and pensioners, increases in their entitlements (salaries, wages and pensions) are restricted to rates that fall short of the increase in the cost of living that results from liberalization of prices. Second, wide segments of the population are affected adversely by efforts to reduce the State budget deficit. These measures include the cessation of subsidized (below market) prices for vital services such as health care, education, public utilities, transportation and electricity. In addition, the reduction in food subsidies severely affects most of the poor population. Third, farmers and tenant farmers are also adversely affected by the reduction or elimination of most subsidies provided by the Government to procure agricultural inputs, such as fertilizers, pesticides and livestock feed.

Price liberalization, affecting most agricultural and industrial goods, has resulted in successive increases in the general level of prices, and has therefore reduced the real purchasing power for most consumers, even those belonging to the middle class.

Foreign trade liberalization, particularly the reduction in tariff rates and the elimination of most non-tariff barriers, has left the domestic market wide open to foreign competition. This has created difficult conditions for many domestic industries, such as ready-made clothing, food, and the pharmaceutical industries. Not only small and medium-sized industrial enterprises, but also large-scale enterprises, have suffered from foreign competition.

Liberalization of interest rates, including the right of banks to set their own rates of interest, has raised the cost of borrowing for small and medium-sized enterprises.

Lowering interest rates on bank savings and investment certificates and bonds, with a view to encouraging financial operations in the stock market, has resulted in the reduction of income for hundreds of thousands of small depositors.

Privatization of State-owned enterprises, as well as the decrease in public investment spending, has resulted in lay-offs for many workers and technicians. The new labour law presented recently, if approved, will facilitate the dismissal of workers from privatized enterprises. Therefore, the problem of unemployment is expected to increase. This problem is considered in more detail in chapter IV below.

B. Jordan

The trade liberalization component of the Economic Reform Programme of Jordan requires tariffs to be lowered or dismantled. This, in turn, lowers protection on commodities, including foodstuffs, a major item in the budget of the poor. Therefore, the poor may benefit from the lower prices brought about by trade liberalization. In contrast, the poor who are employed in industries that lose protection under the Programme may be adversely affected. The poor are usually consumers, not producers, in society; hence, they stand to benefit from the lower prices. Unfortunately, as a result of short-term budget constraints, the Government is likely to raise the sales and/or the excise taxes on products for which customs fees have been lowered in order to compensate for the loss of revenue to the Treasury. Thus, the effect of removing protection may not be felt to the full extent of the tariff reduction.

Other measures should help lower tariff and non-tariff barriers to trade. These include the removal of tariffs on 490 capital goods as well as tariff exemption removals, except on goods used in export development schemes; the consolidation of licensing fees and surcharges; the creation of a safeguard mechanism through the Safeguard Law and the new Customs Law; and the improvement of customs valuation and administration procedures. These measures contribute to lowering the prices of commodities and increasing employment in the commodity-producing sectors.

Measures to encourage employment and create greater investment opportunities include deepening the financial sector by removing obstacles to competition in the banking sector; eliminating interest rate subsidies accorded to the Housing Bank, and its privatization by public offering of the Government share; and commercializing the Agricultural Credit Corporation by giving it full financial and managerial autonomy. In the short run, these steps may lead to increases in the cost of borrowing that will burden farmers and small borrowers. However, improving competition in the banking sector, especially with the liberalization of the interest rate, should decrease the friction cost and drive interest rates down. The manufacturing sector in particular should benefit from the availability of long-term credit.

The investment and regulatory regime moved more slowly than expected in the direction of legislative reform in 1997; owing to the elections, Parliament was not scheduled to convene until the end of the year. However, the following legislation is already in place:

(1) Investment Promotion Law No. 16 for 1995 removes restrictions on foreign ownership of projects in specific sectors and allows complete foreign ownership in many areas of the economy.

(2) The General Sales Tax Law, which was amended in 1995, increased the sales tax from 7 per cent to 10 per cent and expanded its coverage to include services and a larger number of commodities. However, the effect of the sales tax adjustment has been inflationary. Prices of non-basic commodities started to rise and contributed to an increase in the inflation rate, which was 6.5 per cent in 1996, almost four percentage points above the inflation level of the previous year.[31]

(3) The amendment of the Income Tax Law of 1995 was expected to make tax revenue collection more efficient and increase the yield, thus allowing for greater transfers to the poor. However, the Government was planning to increase its reliance on income taxes, relative to consumption or sales taxes, therefore increasing the tax bias against the poor.

(4) The Companies Law and the Safeguard Law were passed as temporary measures until the Parliament could reconvene and consider them in detail. The Companies Law makes the process of registering a company obstacle-free and more efficient when compared to the prevailing practices. The benefits of this law have already been felt by entrepreneurs and investors. The Safeguard Law is consistent with World Trade Organization safeguard rules and helps protect the economy, especially the labour force, from international dumping.

(5) A draft competition law has been approved by the Cabinet with a view to increasing competition, lowering prices, encouraging greater efficiency in production and increasing employment opportunities.

(6) The Securities Law was also passed as a temporary law until the Parliament can reconvene and discuss it in detail. This law authorizes the listing of foreign stocks, separates regulatory functions from operational ones, and modernizes many of the old functions of the Amman Financial Market, while expanding the scope of its activities. The existence of a modern financial market, as envisioned by this law, is expected to encourage the flow of foreign investment to Jordan and create greater job opportunities.

(7) Laws concerning Intellectual property rights (IPRs) were amended to reflect the highest international standards. These amendments, which have not yet been made official, are expected to have an

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[31] Economist Intelligence Unit, *Country Report, Jordan,* second quarter 1997.

inflationary effect, especially on the educated and the middle class. However, in the long run IPR protection should encourage the inward flow of state-of-the-art technology and the rise of research and development.

Redefining the role of the State and privatization will have significant effects on the poor.

Most food subsidies have been reduced and are limited to food coupons. Some subsidies such as the wheat subsidy, which cost the Jordanian Government approximately $100 million in 1995, have been restructured into a direct transfer to reduce distortions. In addition, the Government has restructured the subsidy on fodder, which contributed to a rise in the agricultural products index.[32]

Modifying the role of the Government will most likely lead to a reduction in the size of the public sector workforce, which comprises 75 per cent of all employees (55 per cent of the labour force) in the Kingdom.[33] The relatively high wages offered for low-skill jobs in the public sector relative to the private sector have decreased the demand for low-skill private sector jobs, and created long waiting lists for Government jobs, which are scarce owing to budgetary constraints and overstaffing.

Privatization will enable the Government to remove cross-subsidies; encourage private sector investment instead of crowding it out (Government capital share was 35 per cent in 1990-1992),[34] increase competition because most government-owned enterprises operate in protected monopoly markets; improve product quality; increase Government revenue through the sale of assets, which could help finance the social safety net; lower prices; and increase output, income and employment. It may be noted that, while the poor may have greater access to infrastructure in the areas of telecommunications and electricity, the gradual removal of water subsidies and the move towards privatizing the provision of water are not in their short or medium-term interest.

C. YEMEN

Given the general nature of the objectives of economic reform in Yemen, which include achieving economic growth and development through investment expansion, mainly by the private sector, and an eventual expansion in employment, the effects are not likely to be specific to any group, but rather generally diffused. As far as poverty reduction is concerned, the reform policy appears to assume that the issue will be resolved ultimately as a result of a combination of factors. These include sustained growth and development led by the private sector, and social development resulting from increased efforts by the Government to enlarge its role in providing public services in the field of education, manpower rehabilitation and training and health care, in terms of both quantity and quality. The poor are expected to benefit from increased employment opportunities generated by investment in the private sector, especially in small projects; provision of a stable supply of basic commodities at affordable prices; and measures allowing workers to own part of public companies' shares. Other Government efforts include direct provision of assistance to the poor and the unemployed. However, in the short term these groups may suffer from moves aimed at restraining Government spending and imports in general.

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[32] The original intent of the subsidies to farmers was to increase their incomes. However, the World Bank study (*Hashemite Kingdom of Jordan: Poverty Assessment 1994*, Report No. 12675-JO, p. 131) concluded that the subsidies did not work because the agricultural sector was non-economical.

[33] World Bank, *Jordan Private Sector Assessment 1995*, Report No. 14405-JO.

[34] Ibid.

IV. THE UNEMPLOYMENT PROBLEM

A. EGYPT

The unemployment problem in Egypt has been a focus of attention since the early 1980s. Two major studies investigating this problem were carried out. The first was undertaken by W.B. Clatanoff in 1979 [35] and was financed by the United States Agency for International Development (USAID). The second was conducted by K.S. Seetharan in 1983[36], under the supervision of the Ministry of Manpower and Training and the International Labor Organization (ILO). The two studies examined the problem of unemployment among graduates of institutions of higher and secondary education, and recommended reducing the number of graduates to curtail unemployment in their ranks. In the light of this recommendation, the Government planned to reduce the number of university graduates by 5.2 per cent annually, starting with the implementation of the five-year plan 1982/83-1986/87.

Another underlying factor in the unemployment crisis in Egypt is the excessive number of employees in the public sector. To face this problem, the Government has stopped appointing new graduates to a large extent. The Government has also been working towards reducing the existing number of employees. For example, the Ministry of Industry has tended to reduce its employees by 5 per cent annually. Public sector enterprises have followed the same policy. The result has been a drop in the number of employees in the public sector, from 1,080,932 in 1989/90 to 1,013,667 in 1991/92.[37]

Two estimates, one by the International Labour Organization (ILO) and the other by the Ministry of Manpower and Training, will help to illustrate the magnitude of unemployment in Egypt. According to the ILO data, unemployment in Egypt in 1991 amounted to 2.3 million persons[38]. In 1995, the Ministry of Manpower and Training estimated unemployment at 1.4 million persons, and the rate of unemployment at about 9 percent.[39] In fact, unemployment in Egypt is believed to be significantly higher than the estimate of the Ministry of Manpower and Training, in view of the annual addition to the workforce of 150,000 university graduates and a similar number of secondary school graduates. Moreover, ERSAP is expected to contribute, in the short and medium-term, to increased unemployment, based on the following considerations:

(1) Reducing the volume of public investment expenditure will negatively affect the ability of the Government to provide jobs. This means that creating new job opportunities will be mainly the responsibility of the private sector. However, the capability of the private sector in this regard is at present somewhat limited, in the light of the negative impact of import-trade liberalization on the growth of domestic industry. Hence, businessmen prefer to invest in other activities such as trade, residential construction and speculation, which are generally not labour-intensive;

(2) Privatization could result in lay-offs of around 380,000 workers, representing about 25 per cent of the total manpower employed in the public sector;[40]

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[35] William B. Clatanoff, *Manpower Projections for Planning, Education and Training* (USAID, 1979).

[36] K.S. Seetharam, *The Implicit Effects of Demographic Changes and Education Development on the Egyptian Manpower: Directions and Expectations* (Cairo, Ministry of Manpower and Training, 1983).

[37] Egypt, the Cabinet, Public Sector Information Centre, unpublished data.

[38] Ahmed Hassan, *The Impact of Economic Reform Policies on the Labour Market in Egypt: Projecting Some Expected Impacts of Economic Reform in Egypt*, vol. 2 (September 1994), pp. 304-310, report on research conducted by the Institute of National Planning–Cairo.

[39] Egypt, Ministry of Manpower and Training, Central Administration for Information, unpublished data.

[40] Karima Korayem, "Economic and Social Impacts of Economic Reform Policies in Egypt, 1991/92", in *L'Egypte Contemporaine* (January/April 1996).

(3) Liberalization policies in agriculture are expected to increase unemployment in this sector. Owing to the freeing of land-rental relationships as of October 1997, many tenant farmers may be driven out of agriculture. The resulting concentration of land ownership in the hands of affluent landowners is likely to encourage the utilization of advanced agricultural capital-intensive techniques, further reducing employment opportunities in this sector.

B. JORDAN

Jordan enjoyed a relative comparative advantage in the past owing to its export of skilled workers to the Gulf countries. Remittances by Jordanians working in the Gulf make a significant contribution to the national economy (25.5 per cent of GDP in 1996), but they also render the economy vulnerable to external shocks. Although, the Plan for Economic and Social Development (1993-1997) envisaged a number of measures to resolve the labour problem and increase employment, a number of the problems inherent in the Jordanian labour market may be difficult to address:

(1) The labour participation rate is low because of the young age structure of the population and the low participation rate of women (14 per cent);[41]

(2) The public sector employs more than half the labour force,[42] every month in 1996 the Government paid JD 88.58 million in salaries to 464,449 citizens, which made the wage non-market clearing and non-flexible;[43]

(3) Jordanians tend to emigrate after receiving training at home, thus creating a continuous brain-drain while increasing wage expectations;

(4) Guest workers are a permanent feature of the economy (240,000 in 1992) and drive wages down for low-skill jobs;[44]

(5) Most of the unemployment in Jordan is structural, as employment opportunities tend to grow at a very slow rate compared to the rate of growth of the population and the rate of entry to the labour market.[45] Furthermore, the labour force is highly educated, and the national economy is unable to absorb all the trainees.[46]

The unemployment situation in Jordan seems to have improved in recent years (table 2). This should not be construed to mean that the problem will soon disappear. The continuation of Government efforts in this area in the future and the implementation of additional reforms may be necessary conditions

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41 "Employment, unemployment, returnees and poverty survey 1992".

42 Ibid.

43 The Government paid over JD 1 billion in salaries in 1996, or 20.7 per cent of GDP (*Jordan Times*, 11 September 1996). See also M. Amerah, *Major Employment Issues in Arab Countries*, a paper presented at the Senior Policy Seminar on Employment Policy in Arab Countries, organized by the Royal Scientific Society, Economic Research Centre, with the World Bank, Economic Development Institute, Amman, for a discussion of the rigidity of wages.

44 Saleh El-Khasawneh, "Labour migration in Jordan: policies, flows, organization", paper presented at the UNDP/ILO Seminar on Migration Policies in the Arab Labour-Sending Countries, 1992.

45 World Bank, *Hashemite Kingdom of Jordan: Poverty Assessment 1994*, Report No. 12675-JO.

46 M. Al-Akel, "Manpower, labour market, and wage development: the case of Jordan", Ph.D. thesis, University of Sussex, 1985.

for further reducing unemployment, even though structural factors will remain a major cause of unemployment in Jordan for a long time.

Direct efforts by the Government to reduce unemployment have been aimed at the unemployed poor. In the 1990s, three public institutions were involved in these efforts:

(1) The National Aid Fund (NAF), which was established in November 1986 by Law No. 36, works to reduce poverty in Jordan through financial assistance, physical rehabilitation and vocational training;

(2) The Development and Employment Fund in Jordan (DEF) was established in 1990 to combat poverty and unemployment. The Fund provides soft loans to unemployed individuals, low-income households or communities, and small-scale income-generating labour-intensive projects. It also undertakes studies to identify investment opportunities and projects for potential recipients;

(3) The Handicrafts and Small-Scale Industries Loan Fund (HASSLF), which operates under the umbrella of the Industrial Bank of Jordan, aids handicraft production by providing loans to small projects that employ less than five persons.

TABLE 2. JORDAN: UNEMPLOYMENT AND EXPENDITURES BY THE NATIONAL AID FUND, THE DEVELOPMENT AND EMPLOYMENT FUND, AND THE HANDICRAFTS AND SMALL-SCALE INDUSTRIES LOAN FUND, 1992-1996

Year	Unemployment (percentage)	NAF (JD million)	DEF (JD million)	HASSLF (JD million)
1992	14.0	4.7	4.2	1.6
1993	19.2	10.5	2.5	1.9
1994	15.5	12.4	3.3	1.5
1995	15.0	14.8	4.6	0.4
1996	14.1	15.3	4.7	0.2

Source: Central Bank of Egypt, *Annual Report*, various issues (1992-1996).

Furthermore, the new law, Investment Promotion Law No. 16 for 1995, aims to encourage the flow of investment into the Kingdom and control expatriate worker involvement in a number of professions, while encouraging the removal of barriers against Jordanian labour in the Gulf, which resulted from Jordan's stand in the Gulf war.

Following the end of the Gulf crisis, the unemployment rate declined each year until 1996, with the exception of 1992. NAF increased spending throughout the period 1992-1996, while expenditures by DEF dropped in 1993 and 1994 and then recovered in the following two years (table 2). In contrast, with the exception of 1993, assistance provided by HASSLF reflects a downward trend, becoming almost negligible by 1996. This followed the decision by the Government in 1994 to suspend lending in several areas where markets had become saturated and divert funding to areas where the crafts market was underdeveloped. Therefore, spending by HASSLF became more selective and targeted. In addition, in 1994 the Government created 6,500 additional public sector jobs in its departments, and established the Vocational Training Corporation and the Jordan Loan Guarantee Corporation to encourage small and medium-sized enterprises.

C. YEMEN

Unemployment in its various forms (open, disguised employment and underemployment) is a serious problem in Yemen. The problem is aggravated by rapid population growth and the increasing numbers of new entrants to the labour market. In the past, emigration of Yemeni workers to the GCC countries, particularly Saudi Arabia, brought considerable relief. Emigration possibilities, however, have been reduced: first, by the recession in the GCC countries during the 1980s as a result of the drop in oil

prices and revenues, and second, by the completion of basic infrastructure projects. The Gulf crisis and war dealt a severe blow to the Yemeni economy, forcing the return of hundreds of thousands of Yemeni workers and raising the level of unemployment sharply. It has been estimated that the labour force increased from 2,988,000 workers in 1988 to 3,436,000 in 1991, largely as a result of the return of Yemeni expatriates.[47]

Two features of this situation should be noted because of their direct bearing on the efforts needed to deal with unemployment. The first is the low participation rate of females in the labour force; and the second is the heavy concentration of employment in agriculture (more than three fifths of the labour force).

While there are no reliable estimates of the magnitude of unemployment in Yemen, it is generally agreed that it is very large and in excess of 20 per cent of the labour force. The Government of Yemen thus faces the daunting task of having to provide productive employment not only for the unemployed, but also for the increasing numbers of females that may be entering the labour market and for the additional job seekers resulting from population growth.

The thrust of the reforms envisaged in the context of the new economic policy is generally positive with respect to employment. In the short and medium term, negative repercussions could follow from actions intended to reduce the size of the public sector by selling or leasing establishments to the private sector, including industrial projects, as well as from efforts to encourage the private sector to play a bigger role in managing joint-sector projects.

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[47] Yemen, Ministry of Planning and Development, *General Economic Memorandum, Sectoral Annex*, Round-Table Conference, Geneva, 30 June-1 July 1992, p. 111, in *Major Issues and Challenges Confronting Unified Yemen* (E/ESCWA/SED/1993/16), pp. 72 and 74 (in Arabic).

V. OTHER ECONOMIC AND SOCIAL EFFECTS

A. EGYPT

In Egypt, two basic economic reform policy measures were adopted in the area of agriculture. The first was Law No. 96 of 1992, introducing two amendments to Law No. 178 of 1952 (Agrarian Reform Law):

(1) The rental value of land was raised from 7 times the land-tax value to 22 times the land-tax value, to be implemented over a transitional period ending in October 1997, the date the new law was to enter into effect;

(2) The new law provided for the liberalization of land rental relationships by October 1997, when all agricultural land contracts were to operate under the market mechanism.

The second measure was the abolition or reduction of most subsidies allocated to agricultural production inputs.

These measures ran counter to the interests of tenants and small farmers. Some 443,501 tenants, representing about 18 per cent of all land users[48] in Egypt, were expected to be affected by soaring rents. This meant that the living conditions for about 2.5 million persons (tenants and their families) would be adversely affected, aggravating poverty in the rural areas.

Economic reform policy was also extended to the area of education, where a number of changes have been introduced, or are under consideration, in order to comply with the recommendations of the World Bank.[49] These include the following:

(1) Basic education is to be given priority;

(2) Fees for basic education provided by the State are to be increased; they have already been raised four times;

(3) A new strategy for secondary education is being formulated, with a proposed focus on vocational training. Steps were taken to implement this strategy, but for the last two years little progress has been made.

(4) The issue of cost recovery in secondary education is still under consideration;

(5) University education is not to be free;

(6) Private education at all stages is permitted, and is to be provided with all required administrative facilities. A number of private institutions of higher learning have opened recently.

As a result of the above reform, the cost of acquiring an education, particularly at the secondary and university levels, could well fall beyond the reach of large segments of the population.

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[48] Ahmed Hassan, *The Impact of Economic Reform Policies on the Labour Market in Egypt, Projecting Some Expected Impacts of Economic Reform in Egypt*, vol. 2 (September 1994), report on research conducted by the Institute of National Planning, Cairo, p. 393.

[49] M. Noman Noufal, "Some expected impacts of structural adjustment policy on education", in *Egyptian Review of Development and Planning*, Institute of National Planning, Cairo, vol. 3, No.1 (June 1995), (in Arabic).

B. JORDAN

A principal shortcoming of the Economic Reform Programme in Jordan is its neglect of policies and measures to deal with social problems, such as reducing the adverse effects of unemployment and helping the poor to adjust to the removal or restructuring of subsidies. Therefore, although it is still too early to appraise the total impact of the Programme, it is obvious that social adjustment issues, as compared with economic issues, have not been a top priority on the Government agenda.

On the social side, the distribution and duration of the adverse adjustment effects, which may result directly or indirectly from the Programme, may create lasting social scars in a country that is still relatively young.

One of the unintended consequences of privatization, in the absence of transparency and competitive bidding practices, may be corrupt practices. It is strongly recommended that the Government of Jordan should pass an antitrust law that prohibits monopolistic practices. It is also necessary to make legislation more transparent, enact public disclosure requirements, and eliminate some of the practices that increase contact between citizens and public servants, in order to reduce dependency and favoritism. Furthermore, the Economic Reform Programme, though designed to reduce the role of the Government in the economy and streamline its procedures, creates new organizations and regulatory bodies. An example of this is the Telecommunications Regulatory Commission created by Telecommunications Law No. 19 of 1995. The Commission, while necessary, adds to the size of the public sector. Moreover, a regulatory body, if misused, can become just another bureaucratic layer that stifles economic activity. This problem is further exacerbated by the virtual impossibility of firing public sector employees, causing the system to be bloated and inefficient.

VI. GOVERNMENT SPENDING ON SOCIAL SERVICES[50]

A. EGYPT

Based on available data, table 3 provides a means of estimating for Egypt the ratio of actual Government expenditures on social services to total Government expenditures in selected years, expressed as a percentage, starting with fiscal year 1981/82. The resulting social allocation ratio may be interpreted to reflect the degree of concern of the State about the social dimension in its policy. This dimension is central to any efforts to alleviate poverty.

The following is a summary of the information given in table 3:

(1) In the years 1986/87, 1990/91 and 1995/96, the actual total of social expenditures amounted to about one third of the actual total of Government expenditures, as compared with more than two fifths in 1981/82.

(2) Actual expenditures on education have increased considerably in the last 15 years, and particularly since the early 1990s. As a percentage of total Government social expenditures, the amount increased from 22 per cent in 1981/82 to about 40 per cent in both 1986/87 and 1990/91, and again to about 51 per cent in 1995/96. Thus, expenditures on education occupy by far the largest place in Government social spending. It should also be pointed out that spending on education in the last few years has been about five times that on health.

(3) Expenditures on water have increased sharply, from about one per cent of social expenditures in 1981/82 to about 11 per cent in 1995/96.

(4) Expenditures on sanitation increased from LE 152.5 million in 1981/82 to LE 1,224 million in 1990/91, but then dropped to LE 889 million in 1995/96, or to 3.5 per cent of total social expenditures, compared with 10.5 per cent in 1990/91.

(5) The percentage of subsidies in total Government social outlays has been declining. It dropped from about 55 per cent in 1981/82 to 23 per cent in 1990/91, and again to about 13 per cent in 1995/96.

(6) The share of total Government social expenditures on food subsidies dropped from about one third in 1981/82 to 10 per cent in 1995/96. In absolute terms, and at current prices, food subsidies increased from LE 1,543 million to LE 2,524 million over the same period. However, taking into consideration the high inflation rate prevailing during most of the period and the high growth rate of the population (at an average of 2.2 to 2.4 per cent per annum for most of the period), it becomes clear that in real terms per capita food subsidies dropped considerably.

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[50] According to UNDP, social spending includes that on education, health, welfare, social security, water, sanitation, housing and amenities (UNDP, *Human Development Report 1991* [New York, Oxford University Press, 1991], p. 45).

TABLE 3. EGYPT: ACTUAL GOVERNMENT EXPENDITURES ON SOCIAL SERVICES, SELECTED YEARS

Item	1981/82			1986/87			1990/91			1995/96		
	Expenditure (LE million)	As a % of total social expenditure	As a % of total Government expenditure	Expenditure (LE million)	As a % of total social expenditure	As a % of total Government expenditure	Expenditure (LE million)	As a % of total social expenditure	As a % of total Government expenditure	Expenditure (LE million)	As a % of total social expenditure	As a % of total Government expenditure
Education	1 061.6	22.4	9.6	2 185.6	39.6	12.1	4 783.7	41.1	12.8	13 002.4	50.8	15.9
Health a/	398.2	8.4	3.6	451.7	8.2	2.5	993.7	8.5	2.7	2 700.0	10.5	3.2
Public housing	391.5	8.3	3.5	633.0	11.5	3.5	1 287.2	11.1	3.4	2 478.2	9.7	3.0
Water	56.9	1.2	0.5	251.3	4.5	1.4	502.1	4.3	1.3	2 850.2	11.1	3.6
Sanitation	152.5	3.2	1.4	517.1	9.4	2.9	1 223.6	10.5	3.3	889.3	3.5	1.1
Social security and other social services b/	72.7	1.5	0.7	96.4	1.7	0.5	177.1	1.5	0.5	319.2	1.2	0.4
Food subsidies	1 543.1	32.6	13.9	870.1	15.8	4.8	1 907.4	16.4	5.1	2 524.0	9.9	3.1
Other subsidies c/	1 052.8	22.3	9.5	511.6	9.3	2.8	761.5	6.5	2.0	845.5	3.3	1.0
Total social expenditure	4 729.3	100	42.7	5 516.8	100	30.5	11 636.3	100	31.2	25 608.8	100	31.4
Total Government expenditure	1 1074.8		100	18 066.7		100	37 238.9		100	81 499.9		100

Source: Egypt, Ministry of Planning and International Cooperation, unpublished data.

a/ Expenditures on health do not include expenditures on university hospitals and medical centers affiliated to faculties of medicine, which are included in expenditures on education.

b/ Expenditures on social service subsidies to aged people, widows, the productive families project, social defence societies and social rehabilitation societies.

c/ Other subsidies include those for the transport, energy and agriculture sectors.

B. Jordan

In Jordan, Government expenditures on social services are primarily current expenditures of a recurring nature. Current expenditures grew continuously between 1991 and 1996 (table 4). Capital expenditures, though of relatively minor importance, grew much faster than current expenditures, except in 1994, when they dropped. The figures shown in the table reflect wide year-to-year variations in spending on social services; 6.5 per cent in 1992, 18.2 per cent in 1993, 11.2 per cent in 1994, 15.2 per cent in 1995, and 9.9 per cent in 1996.

The pattern depicted above points to a diversion between the trend in social spending and that of the economy as a whole. The reason for this diversion may lie in the frequent change of Cabinets, to the detriment of consistent policy.[51]

TABLE 4. JORDAN: GOVERNMENT EXPENDITURES ON SOCIAL SERVICES, 1991-1996
(Millions of Jordanian dinars)

Year	Current expenditures	Capital expenditures	Total expenditures
1991	151.2	7.9	159.1
1992	159.7	25.6	185.3
1993	187.5	31.5	219.0
1994	220.4	23.1	243.5
1995	250.3	28.9	280.2
1996	278.3	29.8	308.1

Source: Central Bank of Jordan, *Monthly Statistical Bulletin*, vol. 33, No. 6 (June 1997).

[51] The fact that Cabinets do not, on average, last for more than a year makes for short-term management and ignores the skill, knowledge and expertise that could be acquired by long-serving top Government officials. In defence, however, one may observe that to a certain degree the ministers rotate positions, thus preserving some kind of continuity.

PART TWO
POLICIES ADOPTED TO REDUCE POVERTY

INTRODUCTION

Part two examines the policies adopted to reduce poverty in the three countries that are the subject of this study: Egypt, Jordan and Yemen. A brief overview of poverty-reduction policies adopted in a number of other developing countries indicating a diversity of experience, is provided for purposes of illustration.

The policies pursued in these three countries vary greatly in terms of their scope and complexity. Policies are wide-ranging in Egypt but less well-defined in Yemen, reflecting differences in the degree of sophistication of their economies and the policy instruments at their disposal. The policies reflect a combination of ongoing efforts to reduce poverty in the long term, primarily by means of faster growth and development, and measures intended to mitigate the short-term adverse impact of economic reform and adjustment on the poor and other vulnerable groups in society.

I. POLICIES TO REDUCE POVERTY IN EGYPT

A. INVESTMENT POLICY: LAWS AND REGULATIONS TO PROMOTE INVESTMENT IN GENERAL

In the late 1950s, and throughout the 1960s, when comprehensive planning was adopted as Egypt's official development policy, investment policy occupied a pivotal position. Investment policy was designed to mobilize the resources of the country to increase rates of saving and investment and achieve an optimal allocation pattern of investment compatible with the objectives as drawn up in the various plans.

In accordance with the path of development established under central planning, the Ministry of Planning and International Cooperation became the body responsible for drawing up investment policy at the national and sectoral levels, in cooperation with the ministries concerned. The public sector therefore became the main instrument for implementing investment policies.

1. *Investment policy during the 1970s and 1980s*

Economic policy in the 1970s and 1980s, particularly after the October 1973 war, witnessed a cautious and gradual departure from the centrally planned path of development. This was reflected in increasing efforts from the mid-1970s forward to restrict the public sector, expand the private sector and encourage foreign investment.

(a) *Law No. 43 of 1974*

Law No. 43 of 1974 regarding the System on the Investment of Arab and Foreign Funds and Free Zones replaced Law No. 65 of 1971, encouraging foreign investment by offering guarantees to protect private foreign investment, by granting tax exemptions and by offering financial and customs facilities. Subsequently, Law No. 43 was amended by Law No. 32 of 1977.

Law No. 43 marked the beginning of the "open-door policy". The law specified the types of activities in which Arab and foreign capital could be invested, and offered guarantees against confiscation, seizure and sequestration except by juridical procedures. To encourage the inflow of foreign capital, it also offered such incentives as exemption from taxes for a specified period; the right to maintain foreign currency accounts in banks registered at the Central Bank of Egypt, not subject to the regulations of foreign exchange control prevailing at that time; and the right to transfer abroad profits and principal, according to the regulations stipulated in the law. Also, projects falling within the scope of this law were not made subject to Law No. 73 of 1973, in connection with the procedures for electing labour representatives to the boards of directors of public sector organizations, joint stock companies and private enterprises.

The issuance of Law No. 43 and the official adoption of the open-door policy entailed the establishment of new organizations, marking the beginning of the transformation of the Egyptian economy

from a planned economy to a market-based economy. Three such organizations were established: the General Authority for Investment and Free Zones; the Capital Market Authority; and the National Investment Bank.

(i) *The General Authority For Investment and Free Zones*

Article 25 of Law No. 43 of the Year 1974 established the General Authority for Investment and Free Zones. The Authority is responsible for implementing the provisions of this law by performing the following tasks:

a. Studying the laws, regulations and resolutions that apply to Arab and foreign investment in Egypt and submitting proposals required in this regard;

b. Preparing lists of various types of activities and projects for investment by Arab and foreign investors. This information is to be brought to the attention of potential investors world wide;

c. Reviewing applications submitted by investors;

d. Registering incoming capital in terms of the original currency units, if in cash; registering the value of capital participation in kind or in the form of intangible assets; and reviewing the valuation of the invested capital at the time of disposal or liquidation for the purposes of repatriation abroad;

e. Approving remittances abroad of net profits according to conditions and regulations stipulated in the law;

f. Facilitating procurement of permits necessary for executing Arab and foreign projects;

g. Proposing the establishment of free zones, subject to approval of the Cabinet.

(ii) *The Capital Market Authority*

The Capital Market Authority (CMA) was established in 1979. The presidential decree establishing the Authority set its main tasks as follows:

a. Creating a favourable environment for promoting savings and investment by supporting the issue securities market (primary market) and the circulating securities market (secondary market);

b. Encouraging and rehabilitating intermediaries dealing with securities.

c. Preparing studies and submitting proposals for the new regulations necessary to develop and control the capital market;

d. Preparing and publishing data on securities, the issuing companies and the capital market intermediaries;

e. Monitoring the securities market to ensure the proper issuing of securities and the circulation of transacted securities in accordance with stock market regulations.

(iii) *The National Investment Bank*

The National Investment Bank was established in 1980. Its functions, which were determined by Law No. 119 of the Year 1980, are listed below:

a. Financing projects included in the national development plan, either by sharing in their capital or by extending them loans;

b. Following-up on the implementation of these projects to ensure that investments are carried out as scheduled, and according to planned project specifications;

c. Channelling the various sources of savings into investment projects, and mobilizing domestic savings and foreign capital;

d. Participating in feasibility studies for planned projects.

To finance the projects under this plan, the Bank depends largely on the social insurance funds collected by the Ministry of Insurance and Social Affairs. About 50-60 per cent of these funds are earmarked for financing projects under the State development plan.

The Government is considering restructuring the Bank to extend loans not only to the projects included in the State plan, but also to private sector projects.

(b) *Law No. 159 of 1981 on Joint Stock Companies, Partnership Limited by Shares and Limited Liability Companies*

Nationalization measures, which gave a commanding role to the public sector in the 1960s, created an unfavourable environment for the development of the private sector, and hindered the establishment of private joint-stock companies. Not a single joint-stock company was established during the period 1961-1971; however, a limited number of small companies taking the legal form of partnerships limited by shares were set up.

Following the promulgation of Law No. 43 of 1974, and in the light of the guarantees and incentives it offered to foreign investment, it was recognized that Law No. 26 of 1954 concerning the regulations for establishing and operating joint-stock companies, partnerships limited by shares and limited liability companies, had failed to encourage private domestic investment. Hence, Law No. 159 of 1981 was issued to replace Law No. 26 of 1954, with a view to encouraging the domestic private sector and promoting private investment.

Law No. 159 of 1981 regulates all matters concerning the three legal forms of companies described above, including measures for their establishment, their financial structure and the nature of their management hierarchy. It also establishes the rights and duties of the general assembly, provides measures for monitoring and control, and specifies regulations concerning mergers and the dissolution or liquidation of assets.

(c) *Investment Law No. 230 of 1989*

The open-door policy, which was officially adopted after the October 1973 war, marks the beginning of the process of liberalization of the Egyptian Economy. However, the inflow of foreign investment remained modest throughout the 1970s and 1980s. In addition, because of the drop in oil prices and revenues in the mid-1980s, economic conditions worsened. Consequently, foreign indebtedness increased sharply.

Against this background, the Government reconsidered Law No. 43 of 1974, with a view to meeting foreign investors' needs by granting them more incentives. This review resulted in the promulgation of

Investment Law No. 230 of 1989, which repealed the former law. The most important features of Law No. 230 are:

(i) No discrimination between domestic and foreign investors;
(ii) No price controls on any goods except pharmaceuticals;
(iii) No controls on foreign exchange transactions;
(iv) Exemption from the corporate tax for 5 to 10 years;
(v) Exemption of dividends from the tax on income from movable capital for 5 to 10 years;
(vi) No capital gains taxes on securities;
(vii) No ceiling on foreign ownership of project land;
(viii) No limits on foreign ownership of banks or commercial companies;
(ix) Full flexibility in transferring profits;
(x) Prohibition of expropriation;
(xi) Guarantee of foreigners' right to engage in export trade activities.

2. *Investment policy after the introduction of the Economic Reform and Structural Adjustment Programme*

With the implementation of ERSAP, in agreement with the IMF and the World Bank, the Government introduced two basic laws to speed up the pace of investment.

(a) Law No. 95 of 1992 on the Capital Market[52]

Once the process of privatization was underway, it was necessary to reform the capital market. Therefore, the Government issued Law No. 95 of 1992 on the Capital Market, which came into effect in April 1993. The main features of the Capital Market Law (CML) are described below.

(i) The main objectives of this law are to reorganize the primary (issue) and secondary (circulating) financial markets; encourage private investment and savings; and stimulate the capital market by establishing investment funds;

(ii) The CML stipulates that the listed companies must comply with full disclosure procedures in their financial statements as well as with all other relevant information requirements;

(iii) The CML designates the Capital Market Authority (CMA) as the sole body responsible for regulating and rationalizing the legal, institutional and operational aspects of the securities market. In this capacity, the CMA supervises the activities and the performance of the stock exchange;

(iv) The CMA is empowered to monitor market participants and transactions and to introduce measures to ensure transparency, including fair and transparent trading practices; more frequent publication of useful information on securities; and timely, accurate and complete financial disclosure. The CMA is also responsible for protecting the rights of minority shareholders and for encouraging the establishment of intermediaries dealing with securities;

(v) The CML requires any prospectus to be approved by the Capital Market Authority;

(vi) The CML encourages the establishment of service institutions, underwriters, portfolio managers and depositories;

(vii) According to CML regulations, international investors can invest in securities free from limitations on capital mobility or restrictions on foreign exchange. In addition, the listing rules governing the stock market allow for foreign securities to be listed and traded. Foreign

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52 Ministry of Planning and International Cooperation, *Egypt Economic Profile* 1996, pp. 69-72.

intermediaries can now operate in the stock market under the same conditions as national firms;

(viii) In addition, regulated investment funds are being established on the stock market; authorization to establish these funds is extended to individuals, banks and insurance companies.

The stock market was reactivated in 1993. Incentives have been introduced in the primary market to stimulate supply and demand, such as favourable tax treatment for publicly offered securities listed on the stock market. Financial services are encouraged and an increasing number of firms are currently engaged in underwriting, venture capital, fund and portfolio management activities.

In the secondary market, competition is increasing. In addition to the removal of entry barriers, the law requires firms serving as market intermediaries to meet a minimum capital requirement in order to be incorporated. More brokerage firms and portfolio management firms are being established.

According to the Capital Market Authority [53], the number of companies traded on the stock market reached 131 in April 1997, and the number of companies listed was 654.

(b) *Law No. 8 of 1997 on Investment Guarantees and Incentives*

Recently the Egyptian Government formulated an ambitious strategy for economic and social development for the next twenty years, starting with the Fourth 5-Year Plan (1997/98-2001/02) and ending in 2017. To achieve the objectives envisaged in the strategy, considerable amounts of foreign capital are needed to complement domestic resources.

Against this background, the Government issued Law No. 8 of May 1997, superseding Law No. 230 of 1989. The new law provides for more guarantees and incentives to foreign capital than the previous law. The following are examples of the guarantees and incentives provided:

(i) *Guarantees*

a. The law provides protection against nationalization, confiscation and sequestration.

b. The Government will not interfere in pricing of companies' products, nor in determining their profits.

c. Foreign companies have the right to import all of their requirements on their own, without having to be recorded in the register of importers. They also have the right to export their products without being licensed or recorded in the register of exporters.

d. The joint-stock companies, partnerships limited by shares or limited liability companies, whose activities are restricted to the fields referred to in this law, are not governed by the provisions of Law No. 159 of 1981 concerning measures for their establishment, or concerning the formation of the board of directors, the percentage of Egyptians on the board of directors or the conditions for appointment of members of the board of directors.

[53] Capital Market Authority, *Monthly Statistical Report: Securities Market in Egypt*, April 1997.

(ii) *Incentives*

a. Companies' profits and partners' shares in profits are to be exempted from the tax on revenues from commercial and industrial activities, or the tax on stock company profits, for a period of five years. The exemption is to continue for a period of 10 years with respect to companies set up within new industrial zones and new urban communities.

b. Profits of companies exercising their activities outside the Old Valley are to be exempted from the tax on revenues from commercial and industrial activities for a period of 20 years.

c. Yields on bonds and shares, and income from other similar securities portfolios as issued by the joint stock companies, are to be exempted from the tax on revenues of movable capital, provided that they are floated for public subscription and registered with one of the stock exchanges.

d. A Cabinet decree may be issued appropriating State-owned land or land owned by public juridical persons and allocating it to companies set up in defined areas, free of charge.

B. MEASURES TO PROMOTE INVESTMENT IN SMALL PROJECTS

Small projects play a significant role in the process of development, whether in developed, newly industrialized or developing countries. They contribute by increasing job opportunities; mobilizing and utilizing local resources; supporting large-scale projects by providing them with inputs and intermediate products; correcting regional imbalances within a country; improving the balance of trade; and accelerating the growth of income.

The criteria used to distinguish between small and large projects include the number of workers, the value of fixed capital, and the type of technology. For a project to be designated as "small", the maximum number of workers it can employ is 250 in the United States, 300 in Japan, and 50 in Germany, France and Belgium.[54]

In Egypt[55], the Ministry of Industry and Mineral Resources defines the small-scale enterprise as that which employs less than 100 workers, with a value of fixed capital not exceeding LE 500,000; the Ministry of Planning and International Cooperation defines it as the unit that employs fewer than 50 workers; and the Industrial Development Bank of Egypt defines the small-scale enterprise as that which employs between 10 and 100 workers, with a fixed capital value that ranges between LE 50,000 and LE 1,000,000.

Small projects, particularly in manufacturing and simple processing industries, have played an important role in Egypt since the Ministry of Industry and Mineral Resources was established in 1956, with one of its basic objectives being the promotion of small-scale industries. In 1961, the Cooperative Organization for Producers was established, affiliated to the public industrial sector, to promote small-scale industries; and in 1973, the Ministry of Local Administration established the Producers' Cooperative and Crafts Industries Agency to encourage cooperative small-scale industries. In 1976, the Industrial Development Bank of Egypt (IDB) was established to enhance the role of small-scale industrial projects.

Currently, the Government is giving priority to the promotion of small projects, based on two main considerations: the first concerns the problem of lay-offs resulting from the process of privatization; the

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[54] Alia El Mahdy and Hala El Said, *Small Industries Complex in the 10th of Ramadan City: Needs and Potentials*, published under the auspices of the Federation of Egyptian Industries in cooperation with Friedrich Ebert Stiftung (1996), p. 2.

[55] Ibid., p. 3.

second relates to the adoption of advanced capital-intensive techniques by foreign investors entering the country, limiting the contribution of these enterprises to resolving the unemployment problem.

Government efforts to promote small projects are reflected at three main levels: in the increase in the activities of the IDB; in the successful performance of the Social Development Fund; and in the operations of the National Project for Productive Families, sponsored by the Ministry of Insurance and Social Affairs. The activities of the SDF and the Productive Families' project are discussed below in sections C and F respectively.

In 1976, the year when the Industrial Development Bank of Egypt initiated its activities, the number of small industrial enterprises it financed reached 284. These projects were financed by loans amounting to LE 2.2 million, or about 14 per cent of the total loans offered by the bank.[56] In 1995/96, the bank financed 2,257 small enterprise projects, with loans amounting to LE 309 million, representing about 54 per cent of the total loans offered by the bank. In the 20 years since its establishment, the bank has financed a total of 21,644 small projects, or about 88 per cent of the total number of projects (24,691) it has financed.

The promotion of investment in small projects is not the responsibility of the Government alone; non-governmental organizations (NGOs) also play a positive role in this respect. Unfortunately, there are no detailed and comprehensive data on the role of NGOs in promoting small projects, nor is information available on the scope of their activities. However, in 1996 the Federation of Egyptian Industries, in collaboration with Friedrich Ebert Stiftung, issued a directory covering most of the governmental and non-governmental organizations concerned with the promotion of investment in small and medium-sized projects.[57] The directory lists about 60 NGOs, including some foreign organizations, that offer support and services (financial, technical, marketing, and consultation) to these projects. These NGOs exist in a number of cities throughout the country, and have recently located in some new industrial cities such as the 10 th of Ramadan City and the 6 th of October City.

The major NGOs are the Company for Guaranty against Bank Credit Risks to Small Projects; the Association for Business Men, with branches in Alexandria, Assuit and Aswan; and the Association for Developing Small Producers and Small Industries in the new cities (for example, the 10 th of Ramadan city).

Small projects financed and supported by NGOs cover a wide range of activities and products, including chemicals and plastic products; furniture; ready-made clothing and leather products; spinning and weaving; and the production and packaging of food and beverages.

C. Social Development Fund

The SDF is an autonomous institution which was established in 1991 as part of ERSAP. The purpose of the SDF was to mitigate the adverse effects of economic reforms and help alleviate poverty by generating employment and supporting community development programmes.

SDF resources are in the form of loans and grants provided by individuals and by international, regional, and local organizations, as well as by the Government of Egypt. The total financial resources mobilized by the SDF from the time of its establishment until February of 1997 have amounted to LE 2,688 million.[58]

Beneficiaries of the activities of the SDF include the following target groups:

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[56] Industrial Development Bank of Egypt, unpublished data, 1996.

[57] Federation of Egyptian Industries and Friedrich Ebert Stiftung, *Directory of Governmental and Non-Governmental Organizations in the Field of Small and Medium Establishments in Egypt* 1996 (in Arabic).

[58] Ministry of Planning and International Cooperation, *National Strategy for Economic and Social Development with the Beginning of the 21st Century, 1997/98 -2016/17*, vol. I, April 1992, p. 129.

(1) Individuals, particularly workers, affected adversely by the ERSAP;
(2) Low-income groups;
(3) Gulf crisis returnees;
(4) New graduates;
(5) Inhabitants of areas deprived of basic services;
(6) Women, particularly female heads of household.

The SDF has been implementing a number of programmes to achieve its objectives. The first of these, the Community Development Programme, focuses particularly on the governorates of Upper Egypt and on urban squatter settlements in Cairo and Giza. It gives priority to the provision of social services, such as literacy classes, health care and family planning. The programme operates in cooperation with NGOs to reach the targeted beneficiaries.

Another project of the SDF, the Enterprise Development Programme, helps create employment opportunities by providing financial and technical support for new and existing small enterprises. About 25 per cent of the beneficiaries from the programme loans are women.

The Public Works Programme focuses on upgrading infrastructure at the municipal level. It seeks to generate jobs, raise the quality of life and encourage local community participation. Projects undertaken under this programme include upgrading roads, extending infrastructure to provide potable water, and protecting river banks. Special attention is given to rural areas.

SDF's Labour Mobility Programme is designed to respond to the needs of employees of public enterprises during the restructuring of the public sector. The programme also organizes training courses for unemployed graduates.

The Institutional Development Programme aims to enhance SDF relations with NGOs, with which it has contracted some projects to promote women's participation in development.

The World Bank's 1995 assessment of the performance of the SDF indicates that the Fund was able to create 50,000 to 70,000 jobs per year, representing almost 25 per cent of all non-agricultural jobs created annually in Egypt. This was achieved primarily by supporting small enterprises which previously had no access to bank-credit.[59]

According to another source (table 5), a total of 481 projects were established by the SDF from the beginning of its activities through February 1997. About 370,000 jobs were created during that period.

TABLE 5. EGYPT: NUMBER OF PROJECTS ESTABLISHED BY THE SDF THROUGH FEBRUARY 1997

Programme	Number of projects	Job opportunities (*Thousands*) Temporary	Job opportunities (*Thousands*) Permanent
Community Development	184	23.3	93
Enterprise Development	127	61.2	159
Public Works	69	24.0	3
Labour Mobility	53	3.0	2
Institutional Development	48	0.4	-
Total	481	111.9	257

Source: Ministry of Planning and International Cooperation, *National Strategy For Economic and Social Development with the Beginning of the 21 st Century, 1997/98-2016/17*, vol. I, (April 1997), p. 131.

[59] Ministry of Planning and International Cooperation, *Egypt Economic Profile 1996*, p. 26.

D. REDUCING THE SHORT-TERM IMPACT OF PRIVATIZATION ON EMPLOYMENT

The excess employment in some public sector companies represents one of the main obstacles facing privatization in Egypt, as it inhibits the application of the concept of optimal size employment. In this respect, it is essential to look beyond the economic factors in the process of privatization, as the possible social and political hazards of adding to the already high level of unemployment in the country must be taken into consideration. Thus, the unemployment problem remains one of the most sensitive issues facing the privatization process in Egypt.

Measures taken by the State to limit the adverse effects of privatization on employment include:

(1) A choice of early pension payments or loans to start small projects;
(2) Retraining for reappointment to other projects;
(3) Receiving technical assistance.

In this respect, the Minister of Public Enterprises issued Ministerial Decree No. 538 of 1995, forming a committee to study the payment of compensation under the optional early pension system for employees in the public enterprise sector. The committee decided that, owing to the diversity of conditions in public business sector companies, and in accordance with the demands of the various general trade unions in Egypt, the choice of the alternative most suited to the conditions of each company should be left to the companies themselves, in collaboration with the general trade unions. The conditions for each company were therefore to be studied separately, provided that the sum of compensation did not exceed the difference between the optional early pension and that obtained by the worker when retirement was at the age of 60.

In March 1997, the authorities concerned approved the compensation scheme for employees who retired voluntarily before the age of 60, to be implemented in public business sector companies that were facing major problems or losses, and according to the priorities determined by the holding company.

The basic features of this compensation system are as follows:

(1) The system is optional for those employees who wish to retire before the age of 60, and is to be implemented with full coordination between the holding companies, the affiliated companies, the General Trade Union, and the employee concerned.

(2) Eligible for early retirement under this system are males 50-58 years of age, and females 45-58 years of age. The employee must have worked a minimum of 20 years, either in the same company or at any other place where the employee was covered by insurance which was added to his/ her insurance file.

(3) The maximum amount of compensation for optional early retirement LE 35,000, including the bonus due according to Social Insurance Law No. 79 of 1975. This amounts to a ten-month bonus for retirement at the age of 60 and a minimum of LE 12,000, depending upon the period of service and the level of the post at retirement.

(4) The question of age groups above or below those mentioned above who wish to retire voluntarily, is under consideration by the trade unions, the holding companies and the concerned affiliated companies.

E. OWNERSHIP IN PRIVATIZED COMPANIES

Ownership is transferred from public sector companies to the private sector in various ways. These include:

(1) Total sale to the private sector: by auction; by tender; or by direct negotiation, if necessary, of all assets. A number of companies have already been sold using this method during the first phase of privatization;

(2) Partial sale of one of the production lines to the private sector;

(3) Public subscription, by selling shares of public companies on the stock exchange to individuals or to investment funds. This has been the common procedure adopted by the Government for selling companies recommended for privatization;

(4) Sale to workers and to trade unions of only part of a company's shares, on easy terms and with long-term payment arrangements, with the purpose of strengthening the employees' sense of belonging to their companies while at the same time minimizing their resistance to selling;

(5) Sale to a principal investor with the expertise to improve the company's performance;

(6) Lease and management contracts, under the terms of which the private sector provides public sector companies with administrative and technical know-how for a limited period of time and for an agreed financial return. In this case, there is no transfer of ownership, but only privatization of the management and operation of the company.

Under the last option the private leaseholder of a company may be entitled to a certain percentage of the company's shares at the beginning of the contract, or may be given the right to own part of the shares at the termination of the contract. This may be a preliminary step in transferring company ownership to the leaseholder.

Leasing is accomplished in one of two ways: leasing by partnership, in which the private sector investor leases the company production lines in return for a share of the profits, agreed upon in advance; or leasing for a determined sum of money, with the possibility of ownership at the end of the lease period.

Under a management contract, the contracting company agrees to manage a Government company for a set fee, regardless of the company's profitability, and does not take any financial risks.

Leasing contracts can be used as an intermediate phase in the restructuring process, facilitating the process of privatization at a future time. Management contracts are also a temporary solution, providing support for companies with poor performance records and preparing them for privatization.

F. OTHER POLICIES

1. *The National Project for Productive Families*[60]

This endeavour began in 1964 as a social project aiming to develop family economic resources and improve their situation by involving them in environmental, rural and local industries. Since the introduction of economic reforms, in 1991, the project has continued to be regarded as one of the major elements in the social safety net.

(a) *Objectives*

(i) Developing individual and family potential by providing services in the form of vocational training, illiteracy eradication, special care and rehabilitation for handicapped members, and assistance for students;

(ii) Providing job opportunities for all groups that have the ability and desire to be productive by undertaking a private project. Various services are also offered to help such projects with training, financing and marketing;

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60 Ministry of Insurance and Social Affairs, *Social Solidarity Networks in Egypt* (January 1997), pp. 11-18.

(iii) Utilizing local raw materials, and also establishing new industries making use of unexploited materials, thus developing available environmental facilities and resources;

(iv) Developing family and individual social values.

(b) *Beneficiaries*

(i) Those who have completed vocational training and other programmes in social rehabilitation centres and other establishments, in projects/establishments operated by both governmental and non-governmental organizations under the supervision of the Ministry of Insurance and Social Affairs;

(ii) Low-income families and those who are entitled to assistance and governmental or non-governmental social pensions;

(iii) Housewives with leisure time;

(iv) Youth summoned for public service;

(v) Rural and urban social workers;

(vi) Elderly people, from both sexes, with the desire and ability to be productive;

(vii) University students and graduates and educational institutions at the higher and intermediate levels.

(c) *Services offered by the project*

(i) Material services, comprising equipment, machinery and tools; new materials required to operate them;

(ii) Financial services, including loans required to cover essential operating expenses;

(iii) Marketing services;

(iv) Vocational and training services.

(d) *Main activities*

Sewing and knitting; weaving (carpets and rugs); agricultural projects such as poultry breeding and egg production, and processing and preparing foods (jam); and industrial projects such as carpentry (furniture).

(e) *Financial resources*

(i) Government funds and aid;
(ii) Donations and loans from local or foreign agencies;
(iii) The Social Development Fund;
(iv) Nasser Social Bank;
(v) Mubarak Social Solidarity Project.

(f) *Number of productive families*

In 1996, the number of families served by the National Project for Productive Families was set at 900,000. Owing to the importance of the project in counterbalancing the negative effects of economic

reform policy, one of its main goals has been to increase the number of productive families to two million under the Fourth 5-Year Plan for Economic and Social Development (1997/98-2001/02).

2. *The National Programme for Integrated Rural Development: Shuruk*

This project is directed by the Agency for Reconstruction and Development of the Village, under the auspices of the Ministry of Rural Development. The *Shuruk* project was designed to incorporate all villages in the country gradually over a period of eight years, starting from 1994/95. The time schedule for executing the project is as follows:

1994/95	407 Villages
1995/96	780 Villages
1996/97	1,290 Villages
2001/02	4,905 Villages

The objectives of the project include:

(a) Promoting local environmental development by increasing the exploitation of local environmental resources, and raising the efficiency of their utilization, thus leading to higher standards of basic environmental services, including the provision of potable water and energy resources as well as sewerage, transportation and communications infrastructure;

(b) Increasing employment opportunities, particularly by encouraging simple processing industries in the rural sector;

(c) Enhancing local human development by raising the efficiency of educational, health, cultural and media services.

In the light of these objectives, the *Shuruk* project, if successfully implemented, could contribute positively to the alleviation of poverty in the rural areas.

II. POLICIES TO REDUCE POVERTY IN JORDAN

In the past, the Government of Jordan sought to protect the poor by means of public investment and employment expansion, restrictions on immigration, price and credit controls, cross subsidies and import restrictions. Not only did these measures reduce the growth potential of the economy as well as its productivity and competitiveness, but they also affected the welfare of the poor and created a highly fragmented labour market.[61]

The Government has also endeavoured to encourage foreign investment. Investment Promotion Law No. 16 for 1995 removed discrimination between Arab and non-Arab investors; granted national treatment to foreign investors in most sectors; adopted international dispute-settlement mechanisms; and created more efficient tax-incentive mechanisms for investors. Furthermore, investors in underdeveloped regions are given even greater tax incentives. The law also removed restrictions on foreign ownership and, in many areas of the economy, allowed complete foreign ownership.

In addition, the Government has tried to help the poor, albeit on a very modest scale, by establishing a social safety net.

A. THE SOCIAL SAFETY NET

The social safety net in Jordan is comprised of the National Aid Fund, the Health Card Programme, the Food Coupon System, the Wheat Subsidy Programme, and the *Zakat* Fund.

1. *The National Aid Fund*

Eligibility for benefits from this fund has been defined narrowly to include only the unemployable members of households, excluding students and female dependents. In January 1996, the monthly assistance from NAF was set at JD 60 per household per month for those who do not own their own homes, and at JD55 per month per household for homeowners. About one half of the families below the poverty line are covered by NAF assistance. The NAF budget was JD 15.9 million in 1995 and JD 16.2 million in 1996. The 1997 budget is expected to be slightly above JD 20 million.

2. *The Health Card Programme*

The Health Card Programme guarantees health care to the poor by means of fee waivers or subsidies. The recipients of these cards, selected from the NAF database, have incomes below JD 50 per month. According to the World Bank,[62] the benefits received on average are JD 3.5 per eligible person per year. Health cards are valid for two years and can be renewed. Of the estimated 75,000 poor households in Jordan, only 60 per cent are covered by health insurance. The uninsured include the unemployed poor not related to civil or military personnel, contract employees of the Government, employees of small and medium-scale enterprises in the formal sector and workers in the informal sector. Procedural considerations and lack of awareness contribute to the exclusion of many that would be eligible under the programme.

3. *Food coupons*

Food coupons are offered by the Government to households whose income falls below JD 500 per month. A twelve-month supply of coupons for the purchase of rice, sugar and powdered milk at subsidized prices is distributed yearly by the Ministry of Supply through its 91 offices. About 60 per cent of the population receives these coupons, with the average benefit being JD 6.5 per recipient per year.[63] The Ministry of Supply estimates that 67 per cent of the subsidy goes to the non-poor. According to statistics compiled by the Ministry, 743,433 coupon cards were registered in 1995, serving 4,213,570 persons; this number fell to 639,400 cards for 3,702,160 persons in 1996.

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61 World Bank, *Hashemite Kingdom of Jordan: Poverty Assessment 1994*, Report No. 12675-JO.

62 Ibid.

63 Ibid.

In August 1996, the Government replaced the universal wheat subsidy with a direct transfer of JD 1.28 per person per month. For the total population (4.4 million), the total annual cost of this programme would be JD 67 million. Better targeting of this programme is badly needed to direct a greater proportion of this subsidy to the poor and reduce the benefit going to the non-poor.

4. *The Zakat Fund*

Established by Law No. 3 of 1987, the *Zakat* Fund operates directly under the Ministry of *Awqaf* (Islamic endowment) and Islamic Affairs as a corporate body with partial autonomy with regard to administrative and financial matters. The minister of awqaf serves as the chairman of the board of this programme. Its activities are funded by *zakat,* or the giving of alms (gifts and donations) by Muslims. In 1996, according to Ministry statistics, the Zakat Fund received JD 1.8 million but spent only JD 1.7. Its budget has shown a surplus every year since its inception. One explanation for this is a lack of awareness on the part of the poor of the benefits available.

In general, all of the above instruments need to be better targeted. They need to use and generate better data on the poor (at present financial data is either of very bad quality or is non-existent), make their objectives transparent and improve their delivery systems. A greater role for NGOs is called for, working in coordination with the Government, to plan for social adjustments and possible hardships resulting from the implementation of the Economic Reform Programme.

B. RECENT MEASURES

In the first quarter of 1997, the Government of Jordan announced its intent to initiate immediately an ambitious and comprehensive programme designed to alleviate poverty in the Kingdom. Entitled the Social Productivity Programme (SPP), it aims to improve the productivity of society at all levels by accomplishing three broad-based objectives: increasing the incomes of poor Jordanians to the poverty line or above; improving the living conditions of the poor by providing better access to community infrastructure and services; and improving the situation of the unemployed and underemployed by matching their skills with suitable employment opportunities. The total cost of the programme is estimated at JD 431 million, to be spent over a period of six years. Funding for the programme is to be sought from donor agencies and countries.

The programme strategy provides for implementation in two phases. The first phase began when the programme was announced and is scheduled to take three years. All major activities are to be launched and all programme components are to be initiated during this phase. Monitoring, impact assessment, and evaluations that are conducted during the first phase are to be utilized to formulate the programmes of the second phase. A critical public information campaign accompanying Phase I activities has been designed to create awareness and gather support for the programme.

Phase I of the programme consists of four components:

(1) Restructuring and expansion of NAF in order to provide public assistance to the poor;

(2) Providing, or improving, infrastructure in poor communities in order to enhance social and physical living conditions;

(3) Promotion of small and micro-enterprises;

(4) Generation of productive employment opportunities by means of training and employment support.

1. *Restructuring and expansion of the National Aid Fund*

The capacity of NAF will be expanded by amending its laws and by-laws, recruiting and training staff and computerizing data on beneficiaries so as to link the different agencies that deal with income and employment via computer networks. Further measures will include consolidating all public assistance programmes (such as the wheat subsidy, food coupons, and health cards) gradually into one direct transfer through NAF. Additionally, NAF will be provided with managerial support to enhance the effectiveness of its services in reaching the poor. These services include the formulation of annual management plans, programme guidance, thorough staff training strategies, full computerization of facilities and the creation of a state-of-the-art management information system.

2. *Enhancement of social and physical living conditions of the poor: providing and improving community infrastructure*

The thrust of activities under this component is to provide physical infrastructure to both urban and rural low-income communities with special emphasis placed on the participation of local communities. Also of importance is the interaction of this component with other aspects of the programme. The major activities to be executed under this component include improving essential physical and social infrastructure in 14 squatter settlements and 13 refugee camps. This is to be accomplished by providing wastewater and disposal facilities to the refugee camps and surrounding areas; physical and social infrastructure in low income municipalities and villages; and consultancy services to local governments and agencies participating in the implementation of projects.

3. *Promotion of small and micro-enterprises*

Under this component of programme activities, SMEs in both urban and rural areas will be developed through the enhancement of business support services, credit facilities, and greater interaction between small and micro-entrepreneurs and providers of the above services. Micro-enterprises, which are defined as those operated by the self-employed or backed by capital or a loan of under JD 3,000, will be provided with technical assistance, training, improved business support services, and study visits. NGOs are expected to partner with the Government in providing support services and advice to micro-enterprises on issues pertaining to income-generating activities, sources of credit, credit instruments, and financial intermediaries. Small enterprises (less than 10 employees) will be targeted by private commercial banks for investment and capital loans granted on commercial terms.

4. *Generation of productive employment opportunities: training and employment support*

Training and employment support is to be provided in two forms: in-service training and related activities for 5,000 job seekers; and a wage subsidy to hire 6,000 unemployed poor, to be granted to establishments with five or more employees. The training fund would support on-the-job training and the related support services that would be necessary for the unemployed to secure employment for up to six months. The training is expected to be demand-driven, in that the need for such training would be identified by employers. On-the-job training could be provided by the employers themselves or by private or public institutions. The wage subsidy scheme provides assistance to employers to engage poor unemployed Jordanians. This scheme targets client lists currently available at the Ministry of Social Development and Jordanian welfare agencies. Priority in receiving subsidies would be given to two groups: those who have no formal qualifications beyond basic education and/or those who have already secured a guarantee of employment from an employer willing to replace non-Jordanian employees. Participants must be between 18 and 30 years of age. Progress would be monitored by means of impact assessment studies and evaluations would be reviewed for future programme recommendations.

III. POLICIES TO REDUCE POVERTY IN YEMEN

The primary concern of economic reform policy[64] in Yemen has been to reduce poverty by means of reducing unemployment, which in turn has required the promotion of investment and an effort to expand the utilization of available resources. This task was expected to be carried out mainly by the private sector, once the environment became conducive to private initiative and investment. Secondly, the reform policy was intended to secure a stable supply of basic commodities as well as regulate both their distribution and prices. The objective was to make such basic commodities available at reasonable prices, within the purchasing capacity of low-income groups. Thirdly, the policy aimed at "allowing workers to own part of the public companies' capital and to participate in their management",[65] providing in this way incentives to improve performance as well as allowing workers to obtain a return for their ownership. This issue is closely connected with the issue of privatization. Finally, the policy proposed the provision of direct assistance to the poor and the unemployed by means of social security funds and similar measures.

A. INVESTMENT PROMOTION AND ITS IMPACT ON EMPLOYMENT

The economic reform policy which Yemen has pursued since the early 1990s relies heavily on initiatives and activities to be undertaken by the private sector in all spheres of investment and production. To that end, various kinds of incentives are expected to induce the private sector to expand its investment activities so as to produce a continuous increase in GDP. The desired outcomes of this policy are an improved standard of living for the people in general, including the poor, and the sustained creation of employment opportunities.

For the purpose of attaining these policy objectives, the Yemeni authorities have sought to create an overall environment conducive to greater private sector involvement. This environment is to be based on freedom of economic activity, where the private sector can assume a more active role in mobilizing and investing resources in accordance with the principles of the market mechanism and free competition.

1. *Investment policy*

To achieve these objectives, two basic measures were undertaken by the Government:

- The enactment of Investment Law No. 22 of 1991. The new law embodied the essential features of the investment policy and specified a set of incentives meant to encourage the private sector to expand its investment activities.

- The establishment of the General Investment Authority (GIA), mandated to assume responsibility for promoting investment activities and assist the private investor in obtaining licences for establishing and operating investment projects in the country.

(a) *Investment Law No. 22 of 1991*

The incentives provided by Law No. 22 of 1991 aim to encourage local, other Arab and foreign investment in the various sectors of the economy of Yemen. These incentives comprise numerous privileges, concessions and tax-exemptions, as briefly outlined below:[66]

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[64] Yemen, Council of Ministers, *The Programme for National Building and Political, Economic, Financial and Administrative Reform* (December 1991), (in Arabic).

[65] *Survey of Economic and Social Developments in the ESCWA Region, 1989* (E/ESCWA/DPD/1991/1), p. 70.

[66] Yemen, Ministry of Industry, *Symposium on Development of the Industrial Sector and Horizons of Industrial Investment in the Republic of Yemen* (January 1994), pp. 51-3.

(i) *Privileges*

a. The right to import appropriate fixed assets, transport equipment and other requirements, without the need to register in the Import Registry;

b. The right to buy or lease land and/or buildings for the purpose of the licensed investment project;

c. Equality, in terms of rights and obligations, between Arab and foreign investors' capital and Yemeni investors;

d. Freedom to employ, discipline, or discharge employees as the management of the investment project sees fit, provided that the terms of the employment contract have been observed and due payments made;

e. Assured remittance of net profits resulting from investment of foreign capital, within the stipulated limits, in foreign currency;

f. Preference in obtaining loans and credit from banks and specialized financial institutions;

g. The right to remit the foreign component of an investment in the country through a bank working in Yemen; in the case of relinquishment of the investment, the investor may retransfer the funds abroad, together with the interest accrued, in the original or other freely convertible currency.

h. In purchases for the Government and public establishments, a 15 per cent maximum preference in the price of the production of local agricultural and industrial investment projects is to be given, provided that the quality of the goods produced by these projects is similar to that of imports.

i. Protection of local production from foreign competition by means of import duties, quotas or import prohibition;

j. Retrieval of all tariffs and import duties paid for imported inputs when final products are exported.

(ii) *Tax exemptions*

a. Exemption from import duties and tariffs for all fixed assets required by investment projects, except duties on services;

b. Exemption from the tax on profits for seven years starting from the date of inception of production. The period of exemption may be extended for two additional years in the following cases: for investment projects located in Investment Zone B, which consists of all areas outside certain major cities; for projects owned by public companies to the extent of not less than 25 per cent of paid-up capital; and for projects in which more than 25 per cent of the value of fixed assets is of domestic origin;

c. Spheres in which projects are exempt from the profit tax for two to five additional years, as designated by the Council of Ministers;

d. Exemption from fees for contract authentication and registration, as well as from fees for other contracts related to the project until its completion;

e. Exemption for five years from all taxes and prescribed fees (starting with production) on all imported technology employed by the project concerned;

f. Exemption from interest on loans granted to finance licensed projects in a ratio of 50 per cent of the taxes imposed thereon.

Based on the large number of applications for licensing investment projects during the past few years, these concessions have had a positive effect on local and other Arab as well as foreign investors.

(b) *The General Investment Authority*

In accordance with the investment law, the General Investment Authority (GIA) was formed as a legal entity with financial autonomy, vested with the power to deal with investment issues, especially in connection with investment promotion and project licensing. The prime minister is the chairman of the board of directors of the GIA; the vice chairman is the deputy prime minister; six ministers, the governor of the Central Bank of Yemen and other high ranking officials serve as members. The GIA has its headquarters in the capital, with branches in the major cities. It consists of offices and sections, each specialized in a certain function, with representatives from other governmental bodies attached, and from whom consent is required for licensing investment projects.

The main functions of the General Investment Authority include:

(i) Providing information and services to investors;

(ii) Receiving investment applications and ensuring coordination with the other governmental bodies concerned;

(iii) Taking decisions on applications and issuing licences;

(iv) Following-up with the appropriate agencies on carrying out the contents of licences.

The above review of investment policy indicates that the authorities of Yemen consider the investment activities of the private sector vital to their country's economic and social development.

From the time it assumed its functions in March 1992 through November 1996, the GIA licensed a total of 910 projects in various sectors of the Yemeni economy, with a total cost of about YRls 211.1 billion and a fixed-assets value of YRls 67.1 billion, employing a total of 46,607 workers, as shown in table 6.

TABLE 6. YEMEN: INVESTMENT PROJECTS LICENSED BY THE GENERAL INVESTMENT AUTHORITY, MARCH 1992-NOVEMBER 1996
(*Thousands of Yemeni rials*)

Number of projects	Cost of investment	Value of fixed assets	Number of workers
910	211 117 090	67 170 845	46 607

Source: Republic of Yemen, General Investment Authority, *Statistical Bulletin*, No. 67, 18/12/1996, Sana'a, p. 1.

The data in table 6 indicate that, on average, some 192 projects were licensed annually between March 1992 and November 1996; that the average cost of creating one employment opportunity amounted to YRls 4,530,000; and that the value of fixed assets per worker averaged about YRls 1,441,000. Year-to-year variations, however, were considerable.

The distribution of projects by economic sector and national origin of the capital invested for the years 1992 and 1993 is shown in tables 7 and 8 respectively.

Between March 1992, when it started operations, and December 1992 the GIA licensed 179 projects with a total invested capital of about Y22.2 billion (table 7). Of this total, some 74 per cent were industrial projects, followed by services (16.1 per cent), tourism (5.4 percent), fisheries (less than 3 per cent), and agriculture with a mere 1.8 per cent. The distribution is similar with respect to the number of projects. The greatest number of projects were licensed in the industrial sector (72 per cent), followed by services, with 15 per cent of the licensed projects. As for the national origin of the invested capital, an overwhelming proportion, 89.3 per cent of the total, was of local origin, followed by foreign capital (8.9 per cent). Capital of Arab origin accounted for only 1.8 per cent.

TABLE 7. YEMEN: INVESTMENT PROJECTS LICENSED IN 1992, CLASSIFIED ACCORDING TO SECTOR AND NATIONAL ORIGIN OF INVESTED CAPITAL
(Thousands of Yemeni rials)

	Investment Projects		Invested capital and nationality			
Sector	Number	Percentage	Local	Arab	Foreign	Percentage
Industry	129	72.1	14 779 462	298 666	1 312 247	73.8
Agriculture	10	5.6	376 524	16 883	..	1.8
Fisheries	3	1.7	649 957	..	..	2.9
Services	28	15.6	2 825 754	89 773	668 891	16.1
Tourism	9	5.0	1 200 756	..	..	5.4
Total	179	100.0	19 832 453	405 322	1 981 138	100.0
Percentage			89.3	1.8	8.9	100.0

Source: Yemen, Ministry of Industry, *Symposium on Development of the Industrial Sector and Horizons of Industrial Investment in Yemen* (January 1994), p. 54 (in Arabic).

Note: .. = Not available.

In the second year of operation, the number of projects licensed by the Authority increased to 217, and the investment cost reached YRls 23.7 billion, as shown in table 8 below. The table also shows that the share of services rose sharply in terms of both the number of projects and capital invested, as local investors increased their investment in service projects at the expense of industry. At the same time, foreign and Arab investors expanded their investment activities to other sectors and slightly increased their share of total investment.

TABLE 8. YEMEN: INVESTMENT PROJECTS LICENSED IN 1993, CLASSIFIED ACCORDING TO SECTOR AND NATIONAL ORIGIN OF INVESTED CAPITAL
(Thousands of Yemeni rials)

	Investment Projects		Invested capital and nationality			
Sector	Number	Percentage	Local	Arab	Foreign	Percentage
Industry	119	54.8	9 590 686	360 319	1 282 810	47.3
Agriculture	18	8.3	942 478	..	109 207	4.4
Fisheries	2	0.9	497 735	..	61 621	2.3
Services	65	30.0	9 312 445	95 456	704 694	42.6
Tourist	13	60.0	7 698 374	19 109	..	3.3
Total	217	100.0	21 113 181	474 884	2 157 332	
Percentage			88.9	4.5	6.6	100.0

Source: Yemen, Ministry of Industry, *Symposium on Development of the Industrial Sector and Horizons of Industrial Investment in Yemen* (January 1994), p. 54 (in Arabic).

Note: .. = Not available.

Based on the total number of projects (396) licensed during the first two years of operation, a total investment cost of about YRls 45.6 billion, and the estimate by the GIA that these projects employed 18,110 local workers, the investment cost of creating each additional employment opportunity reached an average of YRls 2.5 billion, or $210,000 at the official exchange rate for that date. In addition, for[67] every nine employment opportunities created for local workers, there was one for a foreign worker. This ratio indicates that the local labour force lacked certain technical know-how required for the projects concerned.

For the years 1995 and 1996, in addition to the number of projects and cost of investment, information is available on fixed assets and the number of workers (tables 9 and 10).

The data in table 9 indicate that in 1995 the service sector continued to attract a growing volume of investments, its share reaching 49.2 per cent of the total investment cost of licensed projects, followed by tourism with 30 per cent and the industrial sector with less than 15 per cent.

As for employment, service projects ranked first, accounting for 44.2 per cent of the total of nearly 11,000 workers required by the projects licensed in 1995. Industrial projects followed with 27 per cent of the total, tourism with over 15 per cent, and agriculture, with the smallest share, at about 4 per cent.

TABLE 9. YEMEN: INVESTMENT PROJECTS LICENSED IN 1995, BY SECTOR
(*Thousands of Yemeni rials*)

Sector	Number of projects	%	Investment cost	Investment %	Fixed assets	Number of workers	Workers %
Industry	90	44.8	9 622 239	14.8	6 032 014	2 958	27.0
Agriculture	8	4.0	673 132	1.0	424 125	456	4.2
Fisheries	4	2.0	3 027 000	4.7	1 528 823	1 013	9.3
Services	63	31.3	31 878 510	49.2	4 739 563	4 834	44.2
Tourism	36	17.9	19 606 119	30.2	2 887 193	1 682	15.4
Total	201	100.0	64 807 000	100.0	15 611 718	10 943	100.0

Source: Yemen, The General Investment Authority, Promotion Sector, *Statistical Bulletin*, No. 53 (13 January 1996), table 2, p. 2 (in Arabic).

Table 9 also indicates that, on average, the cost in terms of investment to create an additional employment opportunity was about YRls 5,922,000 per worker in 1995. For individual sectors, the average was YRls 3,253,000 for industry, YRls 1,476,000 for agricultural projects, YRls 2,988,000 for fisheries, YRls 6,595,000 for services, and YRls 11,656,000 for tourism.

Fixed asset requirements per worker appear to be highest in the case of industrial projects, followed by tourism, fisheries and services; while agricultural projects ranked lowest in terms of fixed-assets requirements per worker.

The total number of projects licensed during the first ten months of 1996 was 184, with a total investment cost close to YRls 87 billion and a fixed assets value of YRls 24.7 billion; the number of workers required was 9,609, as shown in table 10.

Table 10 indicates that the service sector accounted for 68 per cent of total investment cost during the first ten months of 1996. Industrial projects followed with a share of 20.5 per cent; tourism with 10.7 per cent; and agriculture with 1 per cent only.

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67 Yemen, Ministry of Industry, *Symposium in Development of the Industrial Sector and Horizons of Industrial Investment in Yemen* (January 1994), table 4, p. 55 (in Arabic).

Table 10. YEMEN: INVESTMENT PROJECTS LICENSED IN 1996*, BY SECTOR
(Thousands of Yemeni rials)

Sector	Number of projects	%	Investment cost	Investment %	Fixed assets	Number of workers	Workers %
Industry	85	46.2	17 873 284	20.5	13 569 019	3 096	32.3
Agriculture	11	6.0	860 019	1.0	587 179	362	3.8
Fisheries	1	0.5	12 000	0.0	10 304	24	0.0
Services	56	30.4	58 943 987	67.8	7 892 326	4 324	45.0
Tourism	31	16.8	9 306 541	10.7	2 663 027	1 803	18.8
Total	184	100.0	86 995 831	100.0	24 721 905	9 609	100.0

Source: Yemen, The General Investment Authority, Promotion Sector, *Statistical Bulletin*, Nos. 61, 62, 63, 64 and 67 (1996).

* First ten months.

Projects in the service sector also accounted for the largest share of jobs employing, 45 per cent of the total number of workers required for all the projects licensed. Industrial projects followed, with 32 per cent, and tourism with 18.8 per cent.

The investment cost of creating each employment opportunity amounted, on average, to YRls 9,054,000 for all of the licensed projects. By sector, the highest cost was in services (YRls 13,632,000), followed by industry (YRls 5,773,000), agriculture (YRls 2,376,000), fisheries (YRls 500,000), and tourism (YRls 5,162,000).

2. *Investment cost and unemployment*

The average cost of investment per worker rose sharply between 1992 and 1996, as shown in table 11. A similar increase can be noted in the average value of fixed assets required per worker.

The data in table 11 show that the average cost of investment per worker was 135 per cent higher in 1995 as compared with 1992-1993. A further increase of 53 per cent was recorded in 1996. Similarly, in 1996 the average value of fixed asset requirements per worker was about 82 per cent higher than in 1995. These higher investment and fixed asset requirements have led to the creation of fewer jobs.

TABLE 11. YEMEN: AVERAGE COST OF INVESTMENT AND FIXED ASSETS PER WORKER
(Thousands of Yemeni rials)

Year	Average cost of investment	Rate of increase *(percentage)*	Average value of fixed assets	Rate of increase *(percentage)*
1992-1993	2 516			
1995	5 922	135.4	1 426.6	
1996	9 054	53.0	2 591.7	81.7

Source: Tables 7-10.

It seems that investors have also encountered some difficulties in executing projects, resulting in considerable delays. In 1992-1993, only one third of the licensed projects were completed or underway (table 12). Project implementation, which also varied from one sector to the other, was the lowest for industrial projects, with only 29 per cent of the 248 projects licensed during 1992 and 1993 being implemented. In contrast, project implementation reached 45 per cent in the service sector.

As reported above, 910 projects were licensed during the period March 1992 -November 1996, with an investment cost of YRls 211.1 billion; while the size of the labour force required by the projects was estimated at 46 607 workers (table 6). This number, in fact, constituted only a small portion of the unemployed work force in the country. The number of unemployed was estimated at more than 787,000 workers in 1990, and 994,000 workers in 1995.[68] The latter estimate was made shortly after the Gulf crisis of 1991, which forced the return of some 750,000 Yemeni workers and swelled the numbers of unemployed in the country.

TABLE 12. YEMEN: INVESTMENT PROJECT IMPLEMENTATION BY SECTOR, 1992-1993

Sector	Number of projects licensed	Number of projects implemented	Implementation rate *(Percentage)*
Industry	248	72	29.0
Agriculture	28	10	35.7
Fisheries	5	2	40.0
Services	93	42	45.2
Tourism	22	8	36.4

Source: Yemen, Ministry of Industry, *Symposium on Development of the Industrial Sector and Horizons of Industrial Investment in the Republic of Yemen* (January 1994), p. 54 (in Arabic).

In the meantime, it seems that a sizeable number of workers emigrated again.[69] The census of December 1994 revealed that the number of the unemployed was fewer than 325,000 persons (among them 39,000 females), or about 9 per cent of the labour force, which was put at 3,554,000 persons at the end of 1994. The latter figure represented only 24.4 per cent of the population within the country, which was then 14,588,000 residents.[70] This ratio appears to be low in comparison with other countries, and could be explained by the exclusion of the major portion of the female population from employment statistics, although a large number of women live in the countryside and traditionally participate in agricultural and livestock production activities.

The rate of unemployment appears to have increased substantially since 1994. About 91,300 and 94,700 workers entered the labour market in 1995 and 1996 respectively. Excluding the number of workers required for the projects licensed during these two years (about 22,000), 489,000 workers were unemployed at the end of 1996, assuming that no Yemenis left to work abroad during this period.

It is therefore clear that efforts to promote private sector investment since 1992 have not had a significant impact on reducing unemployment nor, hence, on poverty. The poverty situation may deteriorate even further, unless some drastic changes take place. These include:

(a) Securing a much greater volume of financial resources than that mobilized up to now;

(b) Removing of the various obstacles that hamper investment activity;

[68] Yemen, Ministry of Planning and Development, *General Economic Memorandum, Sectoral Annex*, Round-Table Conference, Geneva, 30 June-1 July 1992, p. 111; see also *Major Issues and Challenges Confronting Unified Yemen* (E/ESCWA/SED/1993/16), p. 48, footnote (2), and p. 74 (in Arabic).

[69] The number of Yemeni expatriates was estimated at more than 750,000 at the end of the census year 1994.

[70] Yemen, Ministry of Planning and Development, Central Statistical Organization, *Statistical Year-Book–1995*, pp. 7, 9, 16 and 169. Unemployment figures for 1995 and 1996 were calculated by using data on "annual population growth rate", "crude death ratio" and "total resident population", as well as the "labour force" ratio.

(c) Improving substantially the environment for investment including infrastructure, economic stability and security;[71]

(d) Supporting and encouraging small-scale industries and small investors.

3. *Financial resources*

(a) *Public investment*

The Government of Yemen promised to develop the infrastructure needed for supporting private sector activities, including transportation, communications, energy, water supply and a competent labour force.

Available data on the net Government financial position show a growing budget deficit. Government expenditures exceeded revenues by more than YRls 10 billion in 1990. This gap reached a peak of more than YRls 44 billion in 1994 and dropped to about YRls 36 billion in 1995. However, "capital expenditures" and "capital transfers", items which could be considered as capital-formation or public-investment expenditures, constituted 18.9 per cent of total expenditures in 1990, 12 per cent in 1994 and more than 25 per cent in 1995.[72] These public investment expenditures, however, were equivalent to less than half of investment outlays made by the private sector over the same period.

The deficit in the Government budget has been met by borrowing, mostly from the Central Bank. It was hoped that the Government share in revenues from crude-oil exports would increase so as to reduce the country's financial difficulties. A significant increase did actually take place in 1994, when a surplus was realized in the balance of payments current account amounting to $218.5 million, and again in the first nine months of 1995, amounting to $125.3 million. This followed successive deficits in the previous three years. However, the overall balance of payments remained in deficit, given the sizeable external-debt-service payments, which escalated from about $564 million in 1990 to $983.5 million in 1991, remained close to that figure over the next two years, and then decreased afterward. Consequently, the deficit in the balance of payments rose from $24 million in 1990 to $1,150 million in 1992, standing at $359 million by the end of the first nine months of 1995.[73]

The servicing of the external-debt has taxed the limited foreign-exchange resources of the country and its capacity to expand investment and improve the infrastructure, thus negatively affecting private sector investment activities. Furthermore, the balance-of-payments deficit has exerted pressure on foreign exchange resources, causing the exchange rate to fall sharply. This has been reflected in the higher cost of imports required for investment purposes by the private sector.

(b) *Private sector investment*

Under the reform policy, private investors, both local and foreign, are on their own and must use their own savings or borrow from loanable funds available in the country.

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71 Yemen, Ministry of Industry, *Symposium on Development of the Industrial Sector and Horizons of Industrial Investment in the Republic of Yemen* (January 1994), pp. 238 and 485.

72 Data for the period 1990-1994 are from Central Bank of Yemen, *Statistical and Financial Bulletin*, July-September 1995, pp. 40-42; for 1995, from Yemen, Ministry of Planning and Development, Central Statistical Organization, *Statistical Year-Book–1995*, p. 309.

73 Central Bank of Yemen, op. cit., pp. 26-27 (table 15).

(i) *Foreign exchange needs*

The supply of foreign exchange began to decline in the early 1980s, as remittances by Yemeni expatriates gradually diminished and foreign aid decreased as well. The decline took a sharp dip following the Gulf crisis; foreign exchange scarcity further intensified as the demand for imports increased following the relative freeing of importation. The exchange rate of the Yemeni currency against the United States dollar began deteriorating even faster as the purchasing power of the local currency declined rapidly due to rising inflation. Thus, the average exchange rate of the dollar rose from about YRls 19 in the local "parallel market" at the beginning of 1991 to YRls 30 per dollar at the beginning of 1992. The increase continued thereafter until it reached a peak of about YRls 160 per dollar in the summer of 1995, a rise of more than 842 per cent over 1991.

The impact on investment of the depreciation in the exchange rate was reflected in the rapid increase in the cost of imports for investment and for investors' resources and activities.

(ii) *Local currency needs*

Local investors in Yemen are confronted with limited savings margins. The scarcity of investable funds is reflected in the relationship between investors and lending institutions, viz. the banking system. The attitude of the banking system toward investors has varied according to the type of banking function performed (commercial or specialized) and according to the volume of loanable funds at its disposal.

Commercial banks usually refrain from lending for investment purposes, and prefer to confine their lending operations to commercial deals. Certain loans, however, have been extended to investors but were made against real estate collateral with several times the value of the loan.[74]

Table 13 shows that the advances and loans of commercial banks, excluding advances to Government, grew from about YRls 12.5 billion in 1991 to more than YRls 28 billion at the end of the second quarter of 1995. Most of the advances were of a short-term nature, while medium and long-term loans formed a small proportion of the total and were confined to certain types of activities. Funds for short-term uses accounted for 95 percent, on average, of total advances and loans, of which two thirds were used to finance imports and trade, and only 11.5 per cent to finance imports of industrial enterprises and equipment. Medium and long-term loans, which on average accounted for 5 per cent of all loans and advances, went mainly to finance housing.

Two specialized banks are operating in Yemen: the Cooperative and Agricultural Credit Bank (CACB) and the Industrial Bank of Yemen (IBY).

The Cooperative and Agricultural Credit Bank (CACB) was established in 1982 with the objective of financing agricultural and related projects to help increase the production of livestock, fisheries and agriculture. It also provides financial support to agricultural and handicraft cooperative associations, as well as to agro-industrial and fisheries projects.

CACB provides short, medium and long-term loans and guaranties for financing a wide variety of activities ranging from the importation of seeds and fertilizers to irrigation, land development, and fisheries projects. It is a tool for implementing the Government strategy, as set out by the Ministry of Fisheries, the Ministry of Agriculture and Water Resources and the Ministry of Local Administration. This is achieved by providing the financing necessary to develop the agricultural and fisheries sectors. CACB is the only official source for providing loans and credit facilities to these vital sectors.[75]

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[74] Yemen, Ministry of Industry, *Symposium on Development of the Industrial Sector and Horizons of Industrial Investment in the Republic of Yemen* (January 1994), p. 113.

[75] CACB, *Strategy of the Cooperative and Agricultural Credit Bank* (Sana'a, no date), p. 7.

CACB's activities have had a significant effect on employment and poverty, especially in the countryside. However, the funds made available for financing agriculture have been quite limited relative to needs. At the end of 1991, CACB's authorized capital, for example, was only YRls 300 million, and paid-up capital was even less.[76]

The activities of the Industrial Bank of Yemen (IBY) have been consistently constrained by the shortage of funds, given its limited capital of YRls 100 million. The shortage was such, at the end of 1991, that it threatened stoppage of IBY lending operations. The management of IBY repeatedly requested the Government to increase its capital by the amount of YRls 150 million, but obtained only YRls 100 million after a long delay. Hence, the lending capacity of IBY remains limited, and investors' applications for loans continued piling up.[77]

In line with the reform effort, IBY was entrusted with the task of promoting small-scale industries, and a special unit was attached to it for this purpose. The unit carried out its functions fairly successfully, especially in attracting external aid. For example, IBY assumed the task of managing a United Nations programme for capital development, for the benefit of small industrial entrepreneurs and craftsmen who had the will and the ability to work but lacked the funds and/or guaranties required by banks for loans.[78]

The specialized banks are authorized to attract foreign resources to finance domestic investments. IBY obtained loans from Arab and foreign sources and succeeded in managing some of those loans but failed in the case of others. The loans, at any rate, were rather small in size.[79]

CACB also managed to get a large number of foreign loans, but the loans were mostly small in value. The majority of these loans were utilized in land development or for other agricultural purposes.

In addition, there were certain governmental endeavours in the field of agricultural development, which aimed at reducing poverty in the countryside. One such important effort was the National Project for Livestock Development, which was prepared by a FAO mission in 1993, with financing from the World Bank. The objective of this project was "to develop practical, cost-effective industry support services which enable poor farmers, especially women, to make profitable use of their labour and interest in livestock production to enhance their income and family welfare base".[80]

4. *Aggregate private sector borrowing*

The financial resources made available to the private sector by the banking system, in terms of advances, loans and capital participation, are shown in table 14 below.

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76 CACB, *Annual Report 1991* (Sana'a), p. 3.

77 See M.A. Abdoh, "The Industrial Bank of Yemen vs. the needs for industrial development and the obstacles", in *Symposium on Industrial Development of the Industrial Sector and Horizons of Industrial Investment in the Republic of Yemen* (January 1994), pp. 292-324, and esp. pp. 309, 317 and 318 (in Arabic).

78 Ibid., p. 313.

79 Ibid., p. 305. One loan was from the Kuwaiti Fund, with a value of 4 million Kuwaiti dinars (KD), and two were from the International Development Association (IDA), with values of SDRs 7.9 million and SDRs 8 million.

80 Yemen, *National Livestock Development Project*, p. viii.

TABLE 13. YEMEN: ADVANCES OF COMMERCIAL BANKS (EXCLUDING ADVANCES TO GOVERNMENT), FROM 1991 TO SECOND QUARTER 1995

Advances/Loans	Years						Average
	1991	1992	1993	1994	1995[a/]	1995[b/]	
Total advances and loans (*Millions of Yemeni rials*)	12.5	13.7	15.9	17.3	20.9	28.1	
A. Short-term advances (*Percentage of total*)	96.0	96.9	91.8	93.7	95.8	96.0	95
Financing imports and trade	68.0	72.7	66.0	64.5	64.5	68.0	67.3
Financing industrial enterprises	1.1	3.6	8.9	4.9	17.0	16.5	8.7
Financing industrial equipment	1.3	3.0	5.7	1.5	2.6	3.4	2.8
B. Medium and long-term loans (*Percentage of total*)	3.9	3.0	8.2	6.3	4.2	4.0	4.9
Agricultural	0.4	-	2.7	-	-	-	0.5
Industry	1.9	0.1	-	-	-	-	0.3
Housing	0.7	0.2	4.1	1.4	1.2	0.9	1.4
Other sectors	0.9	2.8	1.4	4.9	3.0	3.0	2.7

Source: Central Bank of Yemen, *Financial and Statistical Bulletin*, vol. 3 (January-June 1992), for 1991; vol. 6 (July-September 1995), for 1992-1995.

a/ First quarter.

b/ Second quarter.

Note: - = Nil or negligible.

Borrowing by the private sector had increased from close to YRls 10.7 billion in 1990 to YRls 28.2 billion by mid-1995. But the increase was more than offset by the decline in purchasing power (as valued in terms of United States dollars). The total amount of credit made available to the private sector in 1991 was nearly YRls 13 billion, equivalent to $512 million at the parallel-market exchange rate. However, while the amount of funds in terms of the local currency increased annually to reach the level of more than YRls 21 billion at the end of the first quarter of 1995, in terms of United States dollars it was only $156 million. In other words, while the amount of funds in local currency had increased by 62 per cent, in terms of dollars it declined by 70 per cent.

The amounts placed at the disposal of individuals constituted around three-quarters of the funds made available to the private sector, the bulk of which was used for commercial purposes, mostly for importing consumer goods; the implication being that only a small portion of private sector borrowing from the banking system was available for investment purposes.

Table 14 shows that the financial resources lent by the banking system to the private sector are quite small in comparison with those extended to the Government, and could hardly be considered conducive to the attainment of the objectives aspired to in the reform policy. In Yemen, the private sector has not been able to obtain the funding necessary to enable it to exercise an effective role in reducing poverty through the creation of jobs, except within the limits of its own resources and/or those borrowed from relatives and friends.

(a) *Foreign direct investment*

(i) *Foreign direct investment in the oil sector.* This type of investment, undertaken by foreign companies that assume all operations relating to the production and export of crude oil, affects the Yemeni economy mainly as a result of the Government share in revenues from crude-oil exports, in addition to an agreed share of crude oil output, which, after refining by the Aden Refinery Company, is placed at the disposal of the Government for local use and for the export of oil derivatives exceeding local needs. The economy also benefits in the form of direct capital inflows for financing oil company imports and operational costs, in addition to cash payments to the Government for permits to operate in Yemeni territory.

TABLE 14. YEMEN: PRIVATE SECTOR AND GOVERNMENT BORROWING, FROM 1990 TO MID-1995

	Private sector borrowing[1/]			Government borrowing
Year	Amounts borrowed (*Millions of Yemeni rials*)	(*Millions of United States dollars*) Official[2/]	Parallel market	Amounts borrowed (*Millions of Yemeni rials*)
1990	10 697.2	891		68 941.2
1991	12 993.8	1 083	512	75 612.4
1992	13 925.7	1 160	419	97 466.3
1993	16 124.7	1 344	286	129 167.4
1994	17 600.2	1 667	218	174 772.8
1995[a/]	21 087.5	1 657	156	184 513.8
1995[b/]	28 235.0	656[3/]	209	188 181.1

Source: Central Bank of Yemen, *Financial Statistical Bulletin* July-September 1995, pp. 5, 11, 32 and 36.

1/ Including private, public enterprises and capital participation.
2/ Exchange rate: YRls 12= $1
3/ Exchange rate: YRls 50= $1

a/ First quarter.
b/ Second quarter.

As far as the problem of reducing poverty is concerned, this type of foreign direct investment exercises its effect mostly through governmental channels. The most important effects directly influencing poverty levels probably result from employing the local labour force, as well as from the provision of essentials for satisfying basic living needs at subsidized prices through the Ministry of Supply and Commerce. Furthermore, the share of crude oil and gas provided to the Government could have a positive effect on the level of well-being of the population by allowing for the pricing of oil and gas products with due regard to the limited purchasing capacity of the low-income and poor groups. Finally, the provision of energy to productive units at reduced prices helps to reduce production costs and, therefore, prices.

Available data concerning the effect of foreign direct investment in the petroleum sector indicate the following:

(1) The Government's share in crude oil exports amounted to $515.3 million in 1990, subsequently declined to $234.5 million in 1992, and then began increasing, reaching $753.1 million in 1994.

(2) In regard to the inflow of investment capital, the balance was negative by nearly $131 million in 1991, positive ($582.6 million) in 1991, and peaked at $903 million in 1993 before declining to $12 million in the following year. By September 1995, inflow was again negative in the amount of $78 million.

(ii) *Foreign investment in non-oil sectors.* Foreign investors seem to have reacted favourably to the issuance of Investment Law No. 22 of 1991 and the establishment of the General Investment Authority. In the two years from March of 1992, incoming foreign investment-capital formed about 11 per cent of the total cost of investment projects licensed; with Arab capital accounting for about 2 per cent only. Almost all Arab and foreign investment was in partnership with Yemenis, as illustrated by a sample of 209 investment projects licensed during 1995-1996 (table 15). Of these projects, 185 had complete local ownership and 24 had mixed ownership, local/Arab/foreign. Of the 24, 13 projects had local/Arab ownership; 8 projects, local/foreign ownership; one project, local/Arab/foreign ownership; and two projects, fully Arab ownership.

TABLE 15. YEMEN: SAMPLE OF INVESTMENT PROJECTS LICENSED DURING 1995-1996, CLASSIFIED ACCORDING TO OWNERSHIP, SIZE AND NUMBER OF WORKERS

(Millions of Yemeni rials)

	Total sample of investment projects				Projects of mixed ownership (Local-Arab-Foreign)			
Size of project	Number of projects	% of projects	Number of workers	% of workers	Number of projects	% of projects	Number of workers	% of workers
Large	82	39.2	4701	44.4	9	37.5	1354	76.7
Medium	110	52.6	5428	51.2	11	45.8	328	18.6
Small	17	8.1	468	4.4	4	18.7	83	4.7
Total	209	100.0	10597	100.0	24*	100.0	1765	100.0

Source: Yemen, The General Investment Authority, Promotion Sector, *Statistical Bulletin*, (various issues).

* including 2 projects with wholly Arab ownership.

Classification of the projects according to size was made in relation to criteria used by the General Investment Authority. Medium-sized projects constituted the largest number in the sample, or 53 per cent of the total, followed by large projects (about 39 per cent), while small-size projects formed only 8 per cent of

the total, followed by large projects (about 39 per cent), while small-size projects formed only 8 per cent of the total. By size, the distribution of projects with mixed ownership was similar to that of the sample as a whole.

The total number of workers for all the projects in the sample was nearly 10,600 workers, of which more than half were employed in the medium-sized projects; 44.4 per cent and 4.4 per cent were employed in large and small projects respectively. In the case of mixed-ownership projects, the total number of workers was 1,765, with large projects accounting for about 77 per cent of the total, followed by medium-sized projects with 18.6 per cent.

It is clear from the above that the overwhelming majority of investment projects licensed were undertaken by local (Yemeni) investors, and that Arab and foreign investments were mostly partnerships with Yemenis. The joint-venture form did not differ much from the purely local ventures, except that its large-sized projects appeared to be more labour-intensive.

It appears that the inflow of Arab and foreign investment did not increase substantially in the non-oil sectors, especially non-Arab investment. Available indicators show that foreign direct investment had become even scanty in comparison with domestic investment. This seems to have been the case especially in 1995 and the first quarter of 1996, in the aftermath of the internal armed conflict of 1994. Arab investments, however, seem to have resumed in the second quarter of 1996.[81]

(b) *Small-scale industry and employment*

Where capital is scarce and labour is abundant, as in Yemen, small-scale industries (SSIs) offer the possibility of applying labour-intensive and capital-saving techniques, especially at the early stages of industrial development. Moreover, in addition to reducing capital requirements, the promotion of SSIs allows for a decentralized locational pattern.

SSIs, including traditional handicrafts, did not receive adequate attention in earlier development programmes and plans in Yemen. The economic reform policy, however, has sought to promote such industries by facilitating imports of required tools and equipment. In addition, a "Special Unit" was attached to the Industrial Bank of Yemen (IBY), which was authorized to prepare and implement a comprehensive programme to support and develop SSIs, by providing soft loans, participation in capital and guaranty, as well as by extending technical and training assistance. The IBY earlier had managed a United Nations programme which benefited more than 70 small-scale projects (mostly in the Sana'a Governorate).[82]

In Yemen, the majority of small businessmen and craftsmen appear to possess the skills and the will to work, but lack financing and the guaranties required by banks to secure loans; they also need managerial advice. Some SSIs also need protection from competing imports. The Special Unit at the IBY has been providing assistance despite the difficulties and a paucity of resources. However, there is a need for a specialized and independent organization that is well acquainted with the problems of small industries and capable of dealing with them adequately and flexibly.

The above examination of the sample of 209 licensed projects indicates that small projects remain limited in number, compared with medium and large ones. In part, this may be due to provisions in the Investment Law, whereby tax exemption requires a minimum value of fixed assets. Apparently, this condition has made small projects less attractive to the majority of investors.

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81 See General Investment Authority, *Statistical Bulletin*, Nos. 53, 57 and 61.

82 M. A. Abdoh, op. cit., p. 313.

(c) *Other measures*

The Yemeni Government seems determined to secure a stable supply of basic commodities and to regulate their distribution and prices in order to sustain living standards for the poor. This has been implemented particularly in the case of wheat, flour, and rice. The Government has also been applying similar methods in the case of other commodities that are locally processed or produced by public enterprises.

With respect to the participation of employees in the ownership of privatized enterprises, the first reference to the issue of transferring ownership to workers was made in the former People's Democratic Republic of Yemen, shortly before unity. The proclaimed intention was to allow workers to own part of public companies and to participate in their management. The reform programme included statements to the effect that it was possible for citizens, including those employed in enterprises of the public and mixed sectors, to participate in purchasing shares of part of the capital of public enterprises or part of the shares owned by the Government in the mixed sector. However, only three enterprises were subsequently offered for sale to the private sector, and no transaction took place because of differences between the private sector and the Government in evaluating the assets of those enterprises.

The balance of the Social Security Fund (SSF) at the Central Bank of Yemen rose from YRls 1,653.8 million in 1989 to more than YRls 16 billion in September 1995. The effectiveness of the SSF has been eroded considerably by inflation. The yearly rates of increase have also been very uneven, varying from a high of 145 per cent in 1992 and 1993 to about 30 per cent in both 1991 an1994[83]. These wide variations in the annual rates of accumulation could be indicative of large differences in yearly withdrawals; but no data are available about the nature of these differences and who are the beneficiaries among the poor, the unemployed or the retired groups.

[83] Central Bank of Yemen, *Financial and Statistical Bulletin*, July-September 1995. p. 13.

IV. POLICIES AND MEASURES APPLIED BY SOME OTHER DEVELOPING COUNTRIES TO REDUCE POVERTY

Policies and measures applied to alleviate poverty in six developing countries, four in Asia, one in Africa and one in Latin America, and the experiences of the countries concerned, are briefly reviewed in this chapter. Four of these countries (China, India, Malaysia and Viet Nam) adopted a more or less comprehensive approach in confronting this problem. The other two countries, Mexico and Senegal, established safety nets to respond to the social dimensions of poverty.

A. INDIA [84]

Since its independence five decades ago, India has drawn up a series of comprehensive plans to accelerate the country's development and reduce poverty. It has achieved varied degrees of progress in agriculture and industry, and more recently in income poverty reduction.

The percentage of income poverty has fluctuated considerably since the 1950s, but the trend has generally been positive. Between 1977 and 1981, rural poverty declined from almost 50 per cent to around 38 percent, and urban poverty declined slightly from 40 to 39 percent. By 1994, rural poverty stood at 39 per cent, and urban poverty at 30 percent.

In its earlier attempts at development in the 1950s and 1960s, India placed greater emphasis on the production of goods than on the distribution of benefits. In rural areas, the green revolution resulted in an increase in agricultural production, but the issue of the distribution of benefits was overlooked. Similarly, in urban areas emphasis was put on large-scale industries rather than on small enterprises that could have helped to provide employment opportunities to the poor.

Economic growth alone cannot account for the reduction in poverty in India. Social and political factors have also contributed. For example, the State of Kerala achieved a noteworthy reduction in poverty, despite slow economic growth. This can be attributed to a number of factors, including political activism; the equitable expansion of job opportunities; an increase in expenditures on basic education and health services; and increased community participation in decision-making at the local level.

The most important pro-poor policy launched by the local governments of the various states in India was a decision to undertake massive increases in public spending. During the period 1976-1990, real per capita public spending grew by 6 per cent a year, or at twice the 3 per cent annual rate of growth in GDP. Comparisons among Indian provinces show that income poverty levels are clearly correlated with public spending levels.

The Ninth 5-Year Plan (1997-2002) stresses policies for eradicating poverty and focuses on such human development priorities as providing basic health care, basic education, safe drinking water and special attention for socially disadvantaged groups.

B. CHINA [85]

Since 1978, the Government of China has given the alleviation of rural poverty high priority among its official economic and social policies. It launched a comprehensive campaign that included the following measures:

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84 UNDP, *Human Development Report 1997* (New York, Oxford University Press, 1997), pp. 51-52.

85 Ibid., pp. 49-50.

1. *Distribution of collective land to households*

Most collective land was distributed to households. This resulted in an increase in agricultural production. The productivity of household agriculture rose to a level about 40 per cent higher than that of the collective farms.

2. *Market orientation*

In a break with the practices of the centrally planned system that was adopted in China in the late 1940s, agriculture was partially shifted to market mechanisms. People were allowed to sell more food on the open market. The Government cut quotas on grain procurement, and reduced the number of products controlled through planning.

3. *Price reform*

In the early stages of economic reform in the late 1970s, the Government pushed up agricultural prices to favour rural producers. It increased the average procurement price for major crops by 22 per cent, and retail prices for pork, eggs, fish and other items by 33 percent. These increases accounted for 20 per cent of the improvement in rural per capita income in the period 1978-1984.

4. *Encouragement of township and village enterprises*

The Government encouraged the establishment of small-scale industrial enterprises in towns and villages with a view to increasing employment opportunities. China achieved good results in this regard. Over the period 1978-1992, the share of these enterprises in gross national industrial production increased from 12 per cent to 39 percent. In the same period, employment in these enterprises increased from 28 million to 124 million, or from 7 per cent of total employment to 21 percent.

The acceleration in the rate of growth of rural agricultural and industrial output resulted in a reduction in the number of rural poor, from 260 million to 97 million during the period 1978-1985.

In 1994, the Government took a significant step towards establishing a favourable institutional framework for poverty reduction. The State Council funded several anti-poverty units, including the Poor Area Development Office, the China Development Foundation for Poor Areas, and the Cadre Training Centre. All these agencies were to report to a strengthened Leading Group for the Economic Development of Poor Areas, responsible for coordinating anti-poverty programmes at the ministerial level. Similar decentralized institutions were established at the provincial and county levels.[86]

C. VIET NAM [87]

Since 1986, Viet Nam has been implementing a development strategy known as *Doi Moi*, a reform process aimed at transforming the Vietnamese economy from a centrally planned regime to a market-based system.

One of the major aims of *Doi Moi* has been to create an appropriate environment based on growth, stability and equity to ensure that poor people can better help themselves and that poverty reduction is sustainable. Between 1992 and 1995 the number of borrowers from the Viet Nam Bank of Agriculture increased almost sevenfold. Local initiatives in the construction of rural infrastructure have been initiated in order to reduce the risks of poverty.

Since launching *Doi Moi*, Vietnam has achieved good progress in reducing poverty, evidenced by increases in life expectancy, adult literacy rates and access to health services, and by a reduction in the

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86 Ibid., p. 50.

87 Ibid., p. 38.

mortality rate for children under five. The Government aims to eliminate chronic hunger by 1999 and to eradicate poverty by 2010.

D. MALAYSIA [88]

The national development strategy of Malaysia includes poverty reduction as a basic objective. The economic policy adopted by the Government in 1971 included the following measures:

(1) Promotion of rural development through innovative programmes, such as resettlement of the landless; rehabilitation and consolidation of land; downstream processing of farm products; and vocational training to encourage rural manpower to work in non-farm activities;

(2) Employment-led urban development aimed at promoting opportunities for self-employment in the informal sector and the execution of labour-intensive public works to alleviate unemployment.

In the 1980s, policy changes assigned the private sector the role of engine of growth. Following the Japanese pattern of development, Malaysia promoted a close working relationship between the public and private sectors to attract foreign direct investment.

In 1988, a new effort was launched, the Development Programme for the Hard-Core Poor. This programme focused on meeting the needs of the poorest of the poor, and its activities included improving housing, ensuring food supplements for children, providing educational assistance and offering interest-free loans.

E. MEXICO [89]

In 1989, Mexico set up the National Solidarity Programme, PRONASOL. The programme established 6,400 committees all over Mexico, elected locally. These committees design projects as requested by the population, and in collaboration with the Government, in four areas: food support, production, social services and infrastructure. In addition to these activities, PRONASOL has three programmes aimed at increasing the earning potential of the poor:

(1) The Solidarity Fund for Production provides credit to farmers undertaking high-risk, low-yield activities;

(2) The Solidarity Fund for Indigenous Communities supports ethnic groups involved in local development activities;

(3) The Solidarity Fund for Women provides credit to workshops and small industries run by women.

PRONASOL also supports the work of the ministries for different sectors by expanding the country's health and education facilities, and by assisting school nutrition programmes. It also supports municipal and infrastructure development for poor communities, through its system of municipal and regional solidarity funds.

In 1992, the Secretariat of Social Development was established as an umbrella agency to coordinate and direct PRONASOL activities. This reflected the desire of the Government to institutionalize the National Solidarity Programme.

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[88] Ibid., p. 75.

[89] World Bank, *Safety Net Programs and Poverty Reduction: Lessons from Cross-Country Experience*, Directions in Development series (Washington, D.C., 1997), pp. 142-44.

F. SENEGAL [90]

In 1987, Senegal set up the "Délégation pour l'insertion et la réinsertion à l'emploi" (DIRE) to deal with the adverse impacts of the adjustment programme. DIRE was funded by the USAID, the World Bank and the Government of Senegal. It provided credits of up to $50,000 to civil servants who retired voluntarily and to university graduates who wished to start their own businesses. However, owing to a lack of training and follow-up, and to the prevalence of personal considerations in offering loans, DIRE had a very poor record in terms of repayment and failure of enterprises. In addition, the beneficiaries were relatively privileged groups. Considerable resources were squandered on unproductive activities. The poor performance of DIRE resulted in its gradual disappearance.

In February 1988, the Government embarked upon another step to address the social costs of adjustment. It set up the "Agence d'éxécution des travaux d'interêt publique contre le sous-emploi" (AGETIP), in cooperation with the World Bank. This programme was set up as an independent agency with a private sector director. AGETIP implemented labour-intensive infrastructure projects suggested by municipalities. In terms of efficiency and number of projects completed, AGETIP has been remarkably successful.

However, as it has failed to work with NGOs, AGETIP has very tenuous links with the poorest groups. Its record on poverty alleviation is mixed; while it has provided a large number of temporary jobs and badly needed infrastructure in poor areas, weak beneficiary participation has limited its potential in terms of project sustainability and capacity-building.

[90] Ibid., pp. 145-46.

V. CONCLUSIONS AND POLICY RECOMMENDATIONS

A. CONCLUSIONS

Economic reform policies and structural adjustment programmes may be elaborate, as in the case of those adopted by Egypt and Jordan in agreement with the IMF and the World Bank, with clearly defined objectives and targets and a set time frame, or they may operate within a framework of modest policies and objectives such as those adopted by Yemen on its own. Regardless, these policies and programmes are not generally intended to deal directly with the poverty issue. Their main purpose is to remove market distortions and structural imbalances in the economy in order to improve overall economic efficiency and the prospects of sustainable long-term growth and development.

The safety net provisions associated with economic reform programmes are meant to cushion their short-term adverse consequences and facilitate the transformation of the economy in the desired direction without unduly burdening the poor. The usefulness of safety nets, however, can extend beyond the duration of reform programmes, and they can become major and permanent tools in the fight against poverty.

As indicated above, there is no officially accepted definition of poverty. Furthermore, any estimates made of the poor are affected by subjectivity and variability. Nonetheless, available data on the decade that preceded the formal adoption of economic reform programmes in the early 1990s indicate that, in the three countries that are the subject of this study, poverty has increased sharply. This is true in terms of absolute numbers as well as in reference to the percentage of the population living at or below the poverty line, especially in rural areas.

Since the early 1990s, the situation of the poor appears to have worsened. In the short term, economic reform measures often entail the kinds of adjustments that may adversely impact on the vulnerable groups in society, especially the poor.

In Egypt and Jordan, the unemployment problem has been aggravated as a result of restrictions on the expansion in public expenditures and the process of privatization. Restricting the volume of public spending reduces the ability of the Government to provide jobs, leaving that responsibility to the private sector, which is itself facing increased competition as a result of import liberalization. Privatization is also expected to result in large lay-offs, estimated at around 380,000 workers in Egypt alone. Liberalization of agriculture is also expected to increase unemployment.

Measures such as the liberalization of prices (including the price of borrowing and returns on bank deposits); the decision to allow transport and energy prices to rise gradually to international levels, or to levels equal to their long-run marginal production cost; decisions taken by the Government to cease offering vital services (such as education and health) at subsidized prices; and the elimination or reduction of subsidies on basic commodities and agricultural inputs have adverse consequences for the poor, especially the rural poor.

The liberalization of land-rent contracts and the increase in the rental value of land from 7 to 22 times the land-tax value in Egypt, which became effective in October 1997, and the abolition of most subsidies on agricultural inputs will adversely effect the economic conditions of hundreds of thousands of small farmers, tenants and their families. These steps in turn will aggravate rural poverty and cause further displacement of the population in the direction of already crowded urban centers.

Measures affecting education, such as the decision in Egypt to raise fees for basic and university education, will also impact large segments of the population, including the poor.

The short-term adverse effects of economic reform policies and programmes, however, should not obscure their significant accomplishments. These are apparent, in the case of Egypt and Jordan, in the remarkable reduction of the budget deficit and the external debt relative to GDP; the substantial rise in official reserves; and the control of inflation. Considerable progress has also been made in transforming the

economy to a market-based system by liberalizing foreign trade and the foreign exchange market; reforming the banking sector; eliminating or reducing price controls and subsidies; and, in Egypt, freeing land tenant-owner relationships. Of particular significance, especially in Egypt, are the steps taken to redefine the role of the State through privatization and to encourage the private sector to assume an increasing role in the economy, while liberalizing the regulatory framework affecting entry, operation, exit and pricing policy for both domestic and foreign capital.

To a significant degree, reduction of poverty means cutting unemployment, a serious problem in all three countries examined. Unemployment, whether open or disguised, or in the form of underemployment, presents a major challenge to the countries concerned. Their task is made more difficult by the need to cope with the prospect of an increase in the number of females entering the labour force; the inflow of new job seekers, resulting from rapid population growth and the young age structure of the population; and the need to provide productive work opportunities for people who are engaged in activities characterized by low productivity, including those in agriculture, services and the informal sector in general. To this should be added the fact that public sector employment and emigration cannot be expected to provide relief to the extent they did in the 1970s and 1980s.

Efforts to deal with poverty in the three countries reviewed have implicitly assumed that broad-based economic growth is the most efficient road to poverty alleviation in the long-term. But experience has highlighted the fact that growth alone is not sufficient; policies and programmes that are specifically aimed at alleviating poverty are needed.

The poor have benefited, and will continue to do so, from Government spending on social development, including health, education and the provision of subsidies. More directly, the poor have been targeted, though on a modest scale, by social safety nets to help them cope with some of the more pressing difficulties confronting them.

NGOs are also playing an increasing, but still very modest, role in helping the poor. Their contribution has been constrained by the limited resources at their disposal relative to the magnitude of the problem; lack of sufficient awareness and recognition of their potential; and weak links with the official entities concerned as well as among themselves.

In terms of their scope and complexity, the policies pursued to reduce poverty in the context of reform programmes vary greatly among the three countries considered in the study. These are wide-ranging and sophisticated in Egypt and the least elaborate in Yemen. In part, these policies are an extension or intensification of past efforts, as is the case with the continued emphasis placed on investment and employment generation.

In Egypt, a major concern in efforts to promote growth and employment since the start of the Economic Reform and Structural Adjustment Programme has been the encouragement of foreign investment by offering guarantees and incentives that provide protection and non-discrimination against foreign capital. Investment policy has also focused on developing the institutional framework needed to promote and mobilize saving and investment, both domestic and foreign, including the reform of the financial market and the reactivation of the stock exchange.

Direct measures adopted by the Government of Egypt to reduce the short-term adverse impact of adjustment on the poor and other vulnerable groups include the promotion of investment in small projects; mitigation of the impact of privatization on employment; the sale of shares to the employees of privatized companies; and the establishment of social safety nets.

The priority accorded to the promotion of small projects reflects concern with the problem of lay-offs resulting from the process of privatization and the fear that for a given country the adoption of foreign investment in capital-intensive technologies will limit its contribution to resolving the unemployment problem. Efforts to promote small projects are reflected in the increase in the activities of the Industrial Development Bank of Egypt; the performance of the Social Development Fund; and the operations of the

National Project for Productive Families. NGOs have also been making a positive contribution in this respect, although details regarding their role and the scope of their activities are lacking.

Implementation of the privatization component of the reform programme has been delayed by concern about its negative effects on employment in the short run. To cushion these effects, the Egyptian Government adopted a number of measures including the option to receive early pensions; retraining; and loans and technical assistance to start new projects. The poor, in their capacity as workers and members of trade unions, were also given the opportunity to purchase part of a company's shares offered for privatization on easy terms and with long-term payment arrangements.

Egypt has developed a relatively elaborate social safety network which directly targets the poor and low-income groups, including the Social Development Fund, the National Programme for Integrated Rural Development and the National Project for Productive Families. The experience of Egypt shows that the scale of the undertaking, the clarity of the objectives, the ability to reach the targeted groups and the choice of appropriate mechanisms are the necessary ingredients for success.

In Jordan, as in Egypt, broad-based policies to enhance growth and generate employment by mobilizing savings, increasing expenditures in the area of social development (health and education) and promoting investment, especially foreign investment, have had limited success in resolving the poverty problem. Interventionist hiring by the public sector to reduce unemployment has contributed to the fragmentation of the labour market, strained the Government budget and reduced the efficiency of public administration.

The effectiveness of social safety net measures in Jordan, including the National Aid Fund, the Health Card Programme, the Food Coupon System, the Wheat Subsidy programme and Zakat Fund, has suffered as a result of the limited means put at their disposal, as in the case of the Health Card Programme, as well as from the fact that the beneficiaries have not always been the poor, as in the case of food coupons and the wheat subsidy.

Furthermore, the limited resources available to the National Aid Fund, the Development and Employment Fund, and the Handicrafts and Small-Scale Industries Loan Fund, involved in Government efforts to reduce unemployment among the poor by assisting small and labour-intensive projects, have prevented them from having a significant impact on unemployment rates among the poor. The combined expenditures by the three institutions during the period 1992-1996 amounted to only JD 82.6 million.

However, the Social Productivity Programme, an ambitious and comprehensive project to alleviate poverty in the Kingdom, was announced by the Government of Jordan in the first quarter of 1997. The SPP was expected to make a difference in the situation of the poor, given the size of the programme, its scope, and the mechanisms to be employed. It aimed to raise the incomes of poor Jordanians to the poverty line or above; improve the living conditions of the poor through better access to community infrastructure and services; and improve the situation of the unemployed and underemployed by matching skills with suitable employment opportunities. The total cost of the programme was estimated at JD 431 million, to be spent over a period of six years.

The economic policy pursued by Yemen, which was expected to reduce poverty through the promotion of private sector investment and employment, has had a limited impact. Only a small fraction of the growing volume of unemployed labour in the country was expected to have found jobs as a result. Likewise, attempts to reduce poverty by providing basic commodities at prices that could be afforded by the poor and low-income groups appear to have had a limited impact on improving living conditions.

The plan to allow workers to own part of the public companies and participate in their management has stalled, pending the settlement of outstanding issues related to the wider question of privatization.

The role of the social safety net has also been limited. Investment in small agricultural and industrial projects has remained low. The specialized institutions concerned, including the Cooperative and Agricultural Credit Bank, which provides financial support to agricultural and handicraft cooperative

associations and societies, as well as to agro-industrial projects, and the Industrial Bank of Yemen, entrusted with the task of promoting small-scale industries, have been severely constrained by the shortage of funds at their disposal, a reflection of the overall situation in the country.

In the countries reviewed, efforts to deal with the poverty problem have been handicapped in part as a result of an overall policy orientation towards growth and employment generation, targeting the population at large but failing to target the poor specifically as a distinct group. In addition, information regarding the poor is highly inadequate. No officially accepted definition of the poverty line is available, hampering efforts to estimate the numbers of the poor or offer them assistance. Information is lacking on such important characteristics as gender and spatial distribution, available skills and potential, the main sources of their livelihood and their most pressing needs. Likewise, when data gathering or planning is undertaken, insufficient attention is given to the situation of the poor.

B. POLICY RECOMMENDATIONS

1. Reduction of poverty should be made the major focus of a long-term development strategy in the ESCWA member countries, to be translated into specific programmes and policies in the medium-term, and not to be viewed as by-product of growth.

2. It should be recognized that the poor are not a homogeneous category; hence, it is necessary to differentiate among the problems faced and the remedies required.

3. A prerequisite for the success of efforts to reduce poverty is the capacity to identify and reach the poor. Obtaining reliable information on the numbers of the poor and their characteristics (including their spatial and gender distribution and degrees of poverty) should be high on the agenda of the Government and civil society. A broad agreement on the definition of the poor and the methods to be used to identify them is urgently needed at the national level. As a corollary, adequate resources should be made available to the data-gathering and substantive units concerned to enable them to work out the conceptual and statistical implications of their findings.

4. In general, and specifically for the three countries that are the subject of this study, direct and immediate benefits accrue to the poor as an outgrowth of the various programmes that comprise the public and private safety net, as well as from economic growth and distributive policy. In the long term, real and sustainable improvements in the situation of the poor will depend largely upon the success of measures enabling them to benefit from the use of their primary asset, their labour. This can be accomplished by creating productive jobs and by enhancing their access to ownership of the necessary means of production. Improving the situation of the poor also implies equipping them to earn a larger share of GDP by providing them with better education, improved health care and other types of support.

5. The frequently scattered efforts on behalf of the poor explain in part the limited impact which these efforts have had in the past. It is necessary to establish a more supportive institutional framework to formulate and implement pro-poor policies. Improved coordination, through a limited number of lead agencies such as the Social Development Fund in Egypt and the Social Productivity Programme in Jordan, would help reduce duplication and waste, and increase the return on the limited resources available.

6. Scale is important if social safety nets are to impact effectively on the poor, since a large-scale programme would allow the pursuit of comprehensive and integrated approaches, as can be seen from the operations of the Social Development Fund in Egypt. Well-defined and transparent objectives and targets are also essential.

7. Promotion of small-scale industrial and rural projects, community development projects and employment in infrastructure works are examples of active means of involving and benefiting the poor, in contrast to the passive role that they play when they receive only transfers and subsidies. The latter, moreover, have a minimal effect because they are thinly spread and fail to distinguish between the poor and non-poor in many instances.

8. Efforts to alleviate poverty are enhanced by the participation of the poor, the transparency of procedures and methods, the availability of technical and financial resources, the suitability of the institutional structure for implementation, and a commitment to the success of these efforts at the highest political level. Participation by the poor is necessary for sustainability and capacity-building.

9. In reform programmes, the emphasis placed on the role of the private sector in promoting growth and employment, which is expected to benefit the poor in the long term, should not obscure the important role that an efficient public sector and administration can play in combating poverty. The State is in a position not only to provide an overall vision of the efforts, policies and institutions needed to reduce poverty, but also to take the lead in these endeavours, in coordination with the private sector and civil society.

10. NGOs working in cooperation with the Government and international aid agencies, as well as with the donors concerned, should be encouraged and their task facilitated in order for them to play a larger role in poverty reduction. By virtue of their proximity to and knowledge of the problems confronting the poor, NGOs are well-placed to make a direct contribution to poverty alleviation. These include creating a supportive base, increasing awareness of the plight of the poor, and mobilizing resources to that end.

11. Policies and programmes that target the poor specifically should be given priority, as their impact on the poor is direct and more discernible, compared to broad-based growth and employment policies, and subsidies and transfers that target the population at large, or ample segments of it.

12. More resources should be devoted to extensive infrastructure works, especially in rural areas. In addition, given the strong correlation between poverty and unemployment, and between employment and small-scale projects, Governments should promote small projects in the rural sector. These projects might include the simple-processing industries, small-scale enterprises in the informal sector and labour-intensive processes such as textiles and clothing.

13. A long-term view should be taken, and measures designed accordingly, to deal with some adverse effects of the reform programme that could have enduring economic and social consequences, such as the liberalization of the relationship between small farmers or tenants and land owners in Egypt.

14. Taxation policy should be reconsidered to take into account the possibilities of the generation of windfall profits and excessive capital gains as a result of the implementation of economic reform, notably in connection with privatization.

15. Keeping inflation under control should remain a priority to prevent the erosion of the value of the already small earnings and transfers accruing to the poor.

16. Experiences with social safety nets associated with economic reform programmes should be assessed carefully with a view to retaining their successful components beyond the life span originally projected for these programmes.