



**Poverty Reduction Strategies in North Africa  
Country Cases for Egypt, Morocco and Tunisia**

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# Poverty Reduction Strategies in North Africa

## Introduction

The purpose of this paper is to highlight poverty reduction strategies in three selected countries in North Africa: Egypt, Morocco and Tunisia. Each country is addressed in detail in a separate country case study, while this paper gives a broad summarized overview of the three experiences. The case studies mostly relied on reviewing and synthesizing the recent existing literature on poverty, and conducting a number of interviews with specialists. Also a number of legislations were addressed, insofar as their direct or indirect impact on poverty.

This is developed in the context of sharing country experiences among all African states. Also noting that the heavily-indebted low-income countries are about to launch their second generation of poverty reduction strategies (SGPRSs), whereby a major reference would be the lessons learnt from the first generation of PRSs, as well as other countries' experiences.

The main themes covered are as follows:

- a) Comprehensiveness of economic growth and poverty reduction strategies,
- b) Ownership, leadership and accountability for poverty reduction,
- c) Institutional and capacity aspects, and,
- d) Aid effectiveness and management for poverty reduction.

## Executive Summary

The paper highlights poverty reduction strategies (PRSs) in Egypt, Morocco and Tunisia, aiming to share experiences among all African states. This is relevant as the heavily-indebted countries are now launching their second generation of PRSs.

### I. Economic Growth and Poverty Reduction

**I.1 Poverty** ratio in Egypt was 24%, 19%, 16.7% in 1990/91, 1995/96 and 1999/2000 respectively, yet with regional disparities i.e. 5.1%, 6.2%, 11.8%, 19.2% and 34.1% in Metropolitan governorates, Lower Urban, Lower Rural, Upper Urban and Upper Rural regions respectively<sup>1</sup>. But poverty in 2002 is estimated to have risen to 20.4% in 2002<sup>2</sup>. The overall poverty reduction in 1995-2000 masked a deterioration in Upper Egypt, especially rural areas. Income inequality did not improve.

Morocco's ratios were 21.1%, 13.1%, 19%, 17.8% in 1984/85, 1990/91, 1998/99 and 2000/01. Urban-rural disparities were large: 9.6% versus 28.2% in 2000/01. North-East and central regions show weakest poverty ratios. The number of poor people was 4.6, 3.3, 5.3 and 5.2 million at the four dates. Most of the poor have not reached any scholar education level; there are large male-female disparities but no 'feminization of poverty' in the sense of increases in women's relative weight in poor population.

In Tunisia, poverty was 7.4%, 7.6% and 4.7% in 1990, 1995 and 2000 respectively. Urban and rural rates were 2.3% and 8.7%. This is according to an approach used by the World Bank (WB), as opposed to the official poverty analysis where higher poverty rates were reported for rural than urban areas. Poverty gap was only 1% in 2000. Throughout 1990-2000, rural poverty had stronger decrease (with reversals in 1995) from 13.1% to 8.7% while urban poverty decreased from 3.5% to 2.3%.

**I.2 Growth and Poverty correlation** in Egypt is observed both *over time* (poverty incidence decreased in 1995-2000 with the growth rate increase, then rose with the subsequent slowdown in growth) as well as *regionally* (poverty in 1995-2000 fell by 8% in Metropolitan and Lower Egypt but rose by 5% in Upper Egypt in association with annual per capita GDP growth rates of 11%, 7.2% and only 2.8% in the three

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<sup>1</sup> (This is by using the Lower Poverty Line; by using the Upper one, ratios at the three dates are 39%, 48% and 42%).

<sup>2</sup>(Also noting that the poverty gap is 3% only i.e. people lifted out of poverty could easily slip back).

regions respectively. Growth in the 1990s was not sustainable being un-associated with productivity increases, and was driven by strong domestic rather than export market demand. Low domestic and national savings rate impede achievement of the growth rate necessary to accommodate a fast-growing labor force and reduce existing unemployment. Egypt lags behind peer countries in trade competitiveness and FDI openness indicators. By end 2004 major reforms included corporate tax reductions, custom tariff reductions, and creation of one-stop-shops for company-registration aiming to reduce bureaucracy and investor transaction costs.

In Morocco, the moderate growth was not sufficient to absorb the unemployed and new flows of job seekers. The Structural Adjustment Program and other policies were accompanied by unemployment increase thus poverty increase in the absence of effective unemployment/social insurance system. The wage policy supported the nominal value of 'guaranteed' minimum salary; salary adjustments did not always compensate for the loss in purchasing power, but protected beneficiaries from more poverty. Negative growth rates in Morocco between 1990/91 and 1998/1999 impacted poverty then. Between 1984/85 and 1998/99, growth rates were positive, but weak. WB states that weakness of growth in Morocco is responsible for 84% of the poverty increase; the remainder is due to bad distribution of this growth among the population. Trade opening up leads to resource re-allocation in favor of export sectors, generally labor-intensive in developing countries, but output-employment elasticity is weak. Moroccan workers' flow abroad had a large positive impact on poverty.

In Tunisia, WB found that without the redistribution, economic growth would have reduced poverty from 11.2% to 8.5% in 1985-1990, instead of the achieved 7.4%; growth was thus pro-poor. Social spending cuts were less other cuts under structural adjustment reforms. Growth accelerated in the second half of 1990s, supported by a higher growth in private consumption and an expansion in agricultural output: the poorest population decile profited most from this, thus a pro-poor growth pattern.

### **I.3. Human Development and Achievements under MDGs**

In Egypt, progress towards MDGs reflects that 2015 targets for poverty ratios and health-related indicators will probably be achieved. School enrollment and literacy targets for 2015 could potentially be met. As regards access to water and sanitation, while some studies report ratios of 90% and above, reservations relate to large urban-

rural disparities, as well as misleading ratios in cases where water and sanitary connections were installed to streets but not in-house.

In Morocco, MDGs' halved poverty in 1990-2015 is difficult in the absence of strong growth adequately targeting the poor. HDI-rank is behind most Arab countries, in the group with weakest HDI-average. Average developing countries *adult literacy* was 72% versus 48% for Morocco; *education* was 60% versus 48%, *life expectancy at birth* is 5 years above developing countries' average due to local efforts but also due to diseases in other countries, and per capita GDP is at developing countries' average. Tunisia is doing well under HDIs: illiteracy is almost nil among younger generations, population growth was controlled due to family planning undertaken in early 1960s, there is almost universal primary education, health level is improving (increase in life expectancy, fall in child mortality), and access to water and sanitation are above 90%.

#### **I.4 Public Expenditures**

In Egypt, public expenditures on social sectors were protected from cut down. Allocations for education, health, subsidies and social insurance were 38%, 37%, 37% and 40% of total budget in fiscal years 2001/02, 2002/03, 2003/04 and 2004/05.

In Morocco, fiscal reforms included a new value added tax in 1986. By several indicators, internal and external adjustments were successful in spite of unfavorable international conditions (fall in demand and price of phosphate) and drought; thus increased foreign investment. SAP avoided huge cuts in expenditures on basic sectors, but these sectors were below countries of similar development levels: expenditures per inhabitant decreased in real terms by 23% in 1982-1990. It is now undisputable that well-targeted public expenditures are a powerful instrument to reduce poverty.

#### **I.5 Poverty Reduction Strategies (PRSs)**

In Egypt, WB's PRS-2004 calls for pro-poor growth macro and microeconomic policies to increase current earnings through growth and employment, better future earnings through education, and protecting the vulnerable through social safety nets. The Ministry of Planning's 2005 Poverty Reduction Action Plan (PRAP) calls for social safety nets (improving the current subsidy system and preparing for cash -rather than in-kind- individual subsidy system), job creation through SMEs and public works, population relocation to new areas, slum-upgrading, and enhancing the

capabilities of the poor through education and training. Interventions include policy changes and specific programs with cost-estimates for the first two years.

In Morocco, 1990s' Social Development Strategy has specific poverty policies, especially in rural areas, with an economic angle, a human capital development angle and a social support angle for special groups. Under 'BAJ1' program, 14 poorest provinces benefit from projects in basic education and health and national promotion. Education reforms took place, and Hassan II Fund was set up for road, irrigation and microcredit projects. Recommendations include applying the awaited structural reforms -not only by laws but on applied level- for investment to reach desired levels, compensation and employment alternatives/ rehabilitation to help poorest groups (e.g. small farmers) affected by removal of protections, targeting the recently developed urban poverty pockets, revising the universal subsidy, improved access to markets and credit, and state-supported micro insurance system for farmers.

In Tunisia, agricultural sector development is fundamental to poverty reduction, being home to most of the poor. Water resources are scarce; irrigation is a major tool to reduce rural poverty and increase food self-sufficiency. More investments are needed to treat wastewater and increase water use efficiency. Only 90% of costs of operation/ maintenance of irrigation water is recovered i.e. disincentives for more efficient use. As to social safety nets, 'Direct Transfers' go to households in extreme poverty, the poor elderly and handicapped; also school meals. Its budget expanded in real terms from US\$23 to 44 million in 1990-2000, and number of households from 65,000 in 1986 i.e. 81% of the extremely poor, to 113,500 in 2000 i.e. 189% of the extremely poor or 137% of the extremely and moderately poor. Difficulties are in targeting and administration. 'Food Subsidy' was somehow successful: progressive *in relative terms*, but not *in absolute terms*. It was reformed by quality differentiation thus self-targeting; but the population richest quintile continued to reap more than the poorest.

## **II. Ownership, Leadership and Accountability for Poverty Reduction**

### **II. 1. PRS Ownership, Political Commitment, and Link to Legislation**

In Egypt, political commitment to poverty reduction is indicated by its involvement in UN MDG process, incorporating poverty reduction in the Five-Year Plan 2002-2007, National Democratic Party's Declaration of 2004 on combating poverty, and adopting 'MISR' program in the 58 poorest (lowest HDI) *markazes* or cities. As to legislation:

- The new Tax Law improved business climate and supported low-income population by raising the household tax exemption threshold to a level close to poverty line,
- The new Labor Law made it easier for employers to terminate work contracts thus reducing their reluctance to hire workers, (but amendments of the Emergency Relief Fund are needed),
- The Land Reform Law effective 1997 was in favor of landlords but -after a period of adjustment- they resorted to partnerships and compromises with the small tenants due to the need for their experience and their presence at site, (yet constraints remain in this sector e.g. lack of suitable storage/transport facilities and lack of market information, especially in Upper Egypt where rural poverty is highest),
- The SME Law provided incentives to SMEs e.g. 10% quota in government procurements, 10% share in vacant lands available for investment, etc. (which would also induce informal businesses to formalize their status), and,
- The draft Local Administration Law calls for fiscal decentralization: investment budget allocations to governorates (and lower levels) are to be based on *population size* and *HDI*s.

Morocco has no PRSP, but poverty combat is part of its national development plans and policies produced by their own institutions and including components designed/proposed by international financial institutions. It turned towards a more democratic political regime, with significant opening towards main opposition parties and civil society. But political forces have not fully succeeded in building enough consensus; which slowed leadership's capacity to pursue fundamental reforms for development objectives, including fighting poverty and unemployment. Yet after 1997 multi-party elections, major economic and social reforms took place in nearly all sectors.

- The SDS is focused on better services for the poor and their integration in economic activity.
- 2000-2004 Socio-Economic Plan aims at high sustainable employment generating growth, and improved access of the poor to basic social services. These objectives are also integrated in strategic documents prepared with WB and African Development Bank. The strategy is centered on the Drinking Water Program and sanitation programs in rural areas. A full set of reforms and programs designed and implemented with the help of WB and other international institutions are ongoing to improve the system, and to allow more access for the poor.

Tunisia has no PRSP but national development plans and policies to combat poverty. These are developed by their institutions, with components proposed by international financial institutions. Equitable development strategy was pursued; progress in social development was through significant pro-poor projects:

- Almost universal primary education is achieved, but quality improvements are needed.
- The gender gap is significantly closed, including women legal rights.
- As to health, even though it is providing free or highly subsidized care, not only to the poor but to half of the population, its organization and financial means are not viable. Reforms are being considered to make it more viable and to develop a new health insurance policy.

## **II.2 Parliament, Civil Society and Private Sector Involvement in PRS**

In Egypt, the parliament discusses/amends/approves legislation, thus has a core role in above-mentioned laws that impact poverty. NGOs have important roles in education,

literacy, health awareness, micro-credit and solid waste projects. Deeper NGO role is proposed by WB's PRS and PRAP in updating ration card system, monitoring ration shops and school meals to prevent leakage, etc. Private sector role in poverty reduction is through private transfers to the needy and business association activities.

In Morocco, the government is showing greater will to cooperate- and sign contracts with NGOs for social actions e.g. literacy and micro-credit. The Social Development Agency was set up to organize/assist NGO local development activities. Civil society was even invited to discussions of the National Socioeconomic Plan 2000/04. But the target population is not adequately participating in program concept/implementation.

In Tunisia, the government is creating stronger links with civil society/NGOs; they were developed and called on to organize actions of solidarity and poverty reduction, and to be a major interface in local development. Many NGOs are indirectly created/financed by the government, especially those in micro-credit. More community driven development projects are allowed with the help of NGOs; a special case is micro-credit distribution by 128 NGOs with support of Banque Tunisienne de Solidarité.

**II.3 As to NEPAD**, all countries would benefit from the unified vision in dealing with development partners, the envisaged activation of international trade is of significant importance to all, Nile Basin initiative impacts agriculture and irrigation i.e. essential issues, and, agricultural research aiming to productivity enhancement directly impacts poverty and constitutes an important area for cooperation between African countries.

### **III. Institutional and Capacity Aspects for Poverty Reduction**

Egypt Human Development Report (EHDR) of 2004 refers to highly centralized system of governance, and bureaucratic and low staff efficiency local administration. Service delivery should eventually be left to local administration (while enhancing capacity building and monitoring systems) and setting standards/regulations should be at the center. Education, training and productivity enhancement are addressed by WB's PRS and PRAP. Institutional strengthening is addressed by various programs including SFD and MISR. Improvements in poverty M&E are called for.

In Morocco, decentralization of responsibilities and resources, particularly in local development actions targeting the poor, was accompanied by training and capacity building. But it is only the beginning of the process: most power and resources are still at central government. The government launched a campaign against tax evasion

and in favor of more transparency in public finance management, trade courts were set up for rapid business dispute settling, the judiciary was made more transparent, human rights and freedom of expression were enhanced, but much remains to be done in modernizing public administration, and in involving the target population. Governance indicators improved in 1996-2000 then deteriorated (0.15 then -0.05); democratic transition requires discipline and consensus building.

In Tunisia, reports on governance are satisfactory for political and economic stability and public service management. But indicators of public accountability, freedom of expression/press are weak, and judiciary independence. Higher participation is needed at local level. Institutional reforms are slow. Governance indicators improved in 1996-2000, but deteriorated in 2002. The 'institutional gap' compared to OECD countries is huge, but Tunisia fares well compared to Mediterranean neighbors. Fiscal reforms improved municipal financial resources, and public administration obtained capacity building and modernization. While decentralization has been slow, local institutions managed to improve the quality and sustainability of their services.

#### **IV. Aid Effectiveness and Management for Poverty Reduction**

In Egypt, a clear vision of needs/priorities is relayed to partners; consultations and rationale-clarification are essential to strategy formulation. Under Paris Declaration (where Egypt participated in March 2005): developing countries should make use of donor's track record in certain areas. There is a limit on external borrowing in view of debt-service burden; external debt to GDP ratio fell from 130% to 30% in 1989-2000. As to aid alignment to PRS, donors have shifted priorities to poverty issues; Egypt got large aid and technical cooperation (TC) in the '90s, mostly in the form of 'program approach' -thus more flexibility in fund-using in Economic Reform Program's priorities e.g. policy formulation, social development and poverty alleviation. TC to Egypt was not mainly donor-driven: GOE initiatives included SFD-creation, (but studies refer to a need to improve SFD's poverty-orientation). Policy-support aid is now in the form of budget support, thus strengthening ownership of policies/projects. But technical assistance was very beneficial: transfer of experience, training human resources and creating institutions. Donor Assistance Group (DAG) formed in 1990s meets monthly in Cairo; the Ministry of International Cooperation now activates GOE's relationship with DAG through more frequent meetings. WB and UNDP-Cairo have a coordination role in Egypt's dialogue with donors.

Problems include conflicting requirements of more than one donor financing same project, complex withdrawing procedures, and deficiency of domestic financing needed when foreign financing does not cover all needs. Recommendations include speeding up the process through which borrowers benefit from the funds, cooperating with funding organizations to prepare rules and procedures guidebooks, etc. Paris Declaration stressed that donors make progress in untying aid, so as to improve country ownership and alignment; with the exception of USA and Japan, most bilateral donors are shifting to untied aid. While unilateral conditions in the form of political pressure is not acceptable, donor conditionality on political and social reform (essential complements to economic reform) are taken as long as of benefit to Egypt's development and based on donor's successful experience in other countries. Conditionality that is performance-related can improve aid effectiveness. Cost-sharing is acceptable as a sign of Egypt's commitment to and ownership of the reform. Paris Declaration addressed donor accountability to pursue priorities compatible with those of the host country, coordinate among themselves to avoid duplication of efforts, minimize procedural requirements that raise transaction costs (this has started through standardizing the formats in which GOE reports on the impact of the assistance and through coordinating the timings of in-coming missions for performance evaluation), be transparent through disseminations, and to have reasonable level of aid continuity and predictability.

Morocco and Tunisia have very similar experiences with aid. The share of aid and external public loans in total investment has declined. The government is borrowing more in domestic financial market than abroad, but international financial institutions remain quite influential and provide financial resources for essential projects; they also use their funds as an incentive to speed some difficult reforms.

As to aid alignment with PRS, main aid components are articulated in strategic plans often prepared right before national development plans of Morocco and Tunisia, to allow for their integration and harmonization with national strategies. Both countries are considered by international donors as reliable borrowers; Country Assistance Strategies are adopted on a regular basis by WB, and similar documents by African Development Bank (ADB). The Moroccan Ministry of Economy, Finance and Tourism, and Tunisian Ministry of Development and International Cooperation are in charge of relations with leading donors and mobilizing external resources for public investments. Donors' objectives are complementary to country's own strategy

indicated in the national plan. For example, the Country Strategy Paper approved by ADB for Morocco for 2003-2005 aimed at ‘helping the country achieve high and sustainable employment-generating growth through support to a) macroeconomic and sector reforms, including improved public services and good governance, b) modernization of infrastructure, and c) developing Moroccan enterprises’. Also under WB’s Country Assistance Strategy for Morocco, main development challenges are ‘achieving higher growth to reduce poverty, improving the access of poor households to social services, enhancing public sector efficiency, and reducing vulnerability, in particular to droughts and, in the medium-term, to environmental degradation’. The two strategic documents’ objectives are similar/complementary, and consistent with Morocco’s strategy in its five-year national plan. This is the outcome of a coordination and harmonization process.

WB, EU and ADB are the most influential in terms of financial package and technical and policy analysis assistance to both countries. UNDP and other UN agencies are present and focus more on poverty reduction. Their approach includes promoting actions to build up institutional capacities in decentralization and de-concentration, foster the administration / civil society partnerships, and strengthen Information, Education and Communication. Cooperation with the Arab Funds has also increased. On the bilateral level, France and Germany offer substantial resources.

The challenge of harmonization is huge given the number of international institutions, partners and donors involved in Morocco’s and Tunisia’s development planning. The number of partners and relatively high amount of resources obtained raise issues of:

- a) coordination and harmonization,
- b) the country’s dependency on aid,
- c) the impact of aid on the country’s effort in saving, technical progress and investment.

Progress has been achieved on the basis of the number of co-financed projects and the use of budget and programmatic funding as new mode of financing. According to this mode, the funds are transferred to the country’s budget and managed through its own institutions and mechanisms. The donor’s intervention is concentrated on the planning phase and on the monitoring of the project. This mode usually signals that the donors trust recipient government, and that the latter may integrate in its budget all the aid and the various projects financed by various international donors. But the risks are there, and there is still the strong need for harmonization.

# Poverty Reduction Strategies in Egypt, Morocco and Tunisia<sup>3</sup>

## I. Economic Growth and Poverty Reduction

### I. 1. Poverty and Inequality

**I.1.a. For Egypt**, poverty incidence data is summarized in Table 1, for Egypt as a whole as well as for its five major regions: Metropolitan Egypt<sup>4</sup>, Lower (i.e. North) Urban areas, Lower Rural, Upper (i.e. South) Urban and Upper Rural Egypt.

Table 1: Poverty Incidence and Trends in Egypt using Different Measures (percent)

	1990/91	1995/96	99/2000	Expected 2015
<b>All Egypt: Lower Poverty Line (PL) *</b> NB. The 'cost of basic needs' methodology was used to construct region-specific PLs; about 1,000 Egyptian Pounds (LE=US\$ 5.8) per capita per annum, in 2000, varying by region:	<b>24</b>	<b>19</b>	<b>16.7</b>	<b>10.8</b>
<i>a. Metropolitan</i>	<i>10</i>	<i>13</i>	<i>5.1</i>	<i>7.9</i>
<i>b. Lower Urban</i>	<i>7</i>	<i>8</i>	<i>6.2</i>	<i>3.9</i>
<i>c. Lower Rural</i>	<i>27</i>	<i>21</i>	<i>11.8</i>	<i>5.2</i>
<i>d. Upper Urban</i>	<i>13</i>	<i>11</i>	<i>19.2</i>	<i>15.6</i>
<i>e. Upper Rural</i>	<i>43</i>	<i>29</i>	<i>34.1</i>	<i>20.4</i>
<b>Using Upper Poverty Line**</b> (LE 1,400 and 1,574 in 2000 and 2002)	<b>39</b>	<b>48</b>	<b>42</b>	<b>--</b>
<b>Using \$1 a day*</b>	<b>8</b>	<b>2.5</b>	<b>0.68</b>	<b>0.88</b>
<b>Using \$2 a day*</b>	<b>39</b>	<b>41</b>	<b>24.8</b>	<b>16.5</b>

But in spite of reductions in poverty in 1995-2000, there are concerns about poverty in 2002, estimated at 20.4%<sup>5</sup> (with ratios of 5.7%, 9.8%, 16.7%, 19.2% and 34.9% for the five regions shown in Table 1 respectively). Notwithstanding differences in methodologies and sources, between 2002 data versus previous ones, it is noted that growth has slowed down starting 2000, with the rise in fiscal deficit leading to giving

<sup>3</sup> This paper is a summary of three separate country case studies as noted earlier: for details on any of the countries, sources of information, and sources of data in the Tables, please see the respective country case study and its appendices.

<sup>4</sup> Metropolitan Egypt is the term usually used to refer to four out of 26 governorates: Cairo, Alexandria, Port Said and Suez. Damietta is also considered by some studies to belong to this category.

<sup>5</sup> (Also noting that the poverty gap is 3% only i.e. people lifted out of poverty could easily slip back).

up the expansionary policies pursued earlier, and a contraction in volume of bank credit, in addition to the negative effects of September 11<sup>th</sup> events on tourism.

**Regional disparities in Egypt are large** as indicated by Table 1; the overall poverty reduction in 1995-2000 masked the deterioration in Upper Egypt. Poverty is more profound in Upper Egypt and in rural versus urban areas. As to Upper Urban Egypt, while poverty ratio significantly increased from 11% to 19% in 1995-2000, this still constituted much smaller number of poor people compared to other regions. The distribution of the poor in Egypt is shown in Table 2, (this is on the basis of the Lower Poverty Line; while if the Upper Poverty Line is used, the total number of poor people is estimated at almost 27 million in 2000). **Income inequality did not improve** during the period under review: Gini increased from 34.5% to 37.8% in 1995-2000, the share of income or consumption by the poorest quintile fell from 9.8% to 7.7% in the same period, and the top quintile share stood at 46% in 2000.

Table 2: Numbers of Poor People in Egypt by Region (in million)

	1995/1995	1999/2000	2002
Metropolitan	1.3	0.6	13.5
Lower Urban	0.7	0.5	
Lower Rural	3.8	2.4	
Upper Urban	0.9	1.4	
Upper Rural	4.6	5.8	
<b>All Egypt</b>	<b>11.5</b>	<b>10.7</b>	

Some of the **main challenges** would be to address the inequities referred to above, as well as to address a serious existing unemployment problem referred to later. Some interesting findings vis-a-vis Egypt's poverty profile were such that out of every ten poor people:

- eight live in rural areas,
- seven live in Upper Egypt,
- six work in agriculture,
- six live in a house with an illiterate head,
- five are illiterate and four have basic or secondary education, and,
- five have more than three children.

The poverty reduction strategies described below have in fact addressed the issue of disparities, and focused on some or all of the above-mentioned profile-aspects<sup>6</sup>.

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<sup>6</sup> Family size may not be a desirable targeting mechanism for fear of giving wrong signals that would discourage family planning.

**I.1.b For Morocco**, Table 3 indicates the trend in poverty incidence and number of poor people (using consumption expenditure per person).

Table 3: Evolution of the Number of the Poor and Poverty Rates in Morocco

	1959-60		1971		1984-85		1990-91		1998-99		2000-01	
	Number	%	Number	%	Number	%	Number	%	Number	%	Number	%
Urban	1750	43.8	2072	38.3	1300	13.8	912	7.6	1814	12.0	1560	9.6
Rural	3995	60.0	4457	44.7	3300	26.7	2448	18.0	3496	27.2	3622	28.2
Total	5745	55.7	6529	42.4	4600	21.1	3360	13.1	5310	19.0	5182	17.8

(Numbers are in thousands the rates are in %)

**As regards disparities in Morocco, and poverty profile**, poverty is a phenomenon of **rural dominance**; rural regions have benefited only minimally from public investments in economic and social infrastructure. And due to interferences between the economic dynamics, those of the population and the ones of poverty, an urbanization of the phenomenon began to show since a decade, which will have social consequences that need to be taken into consideration when elaborating on poverty fighting strategies. The North-East and central regions generally show the weakest poverty ratios. In some assessments, poverty ratio varies from less than 3% in some region's urban zones, to more than 40% in equivalent rural zones of other regions.

Direct and indirect costs of education, especially short-term opportunities, prevent the parents in poorest households from investing in education. One of the indirect and sometimes unbearable costs of the education is the difficult access to, or rather the non-availability of adequate school infrastructure, particularly in rural environment. **The majority of the poor population has not reached any scholar education level and only a small percentage is literate**, with an opposite situation for the prosperous population. The percentage of non-schooled children has always been higher among the children of unprivileged rural class in comparison with those of richer classes of urban regions. The two main factors that seem to explain this gap are the **insufficiency of the family budget, and access-difficulty to schools in certain regions**, (the poorest 20% of the population spend on education 4 times, on average, less than the richest 10%; also the average distance between the child's home and the primary school is 2-3 km in certain expenditure classes).

In spite of continuous reinforcement of women participation in almost all the aspects of the economic and social life, **male-female disparities** still exist: women illiteracy rate is nearly 60% compared to 35% for men, the schooling ratio for the age of 6-22 is below 50% for women against 60% for men, the unemployment ratio in urban class is higher for women than for men, female labor force is generally underpaid compared to males, and no pregnancy follow up is available in rural regions. The number of poor women increased from 1.7 to 2.7 million during 1991-1998/99, but there is no 'feminization of poverty' in the sense of increases in the relative part of women within the poor population. In 1998-99, women and men in monetary poverty constituted 18.9% and 19.1% respectively. Poverty rate for women in urban regions went up from 7.9% in 1990-91 to 12.2% in 1998-99, and from 17.7% to 27.3% in rural regions. For the parallel masculine population rates went up from 7.2% to 11.7% and from 18.3% to 27.0% respectively for the two regions. According to both measures, annual average growth rate of the feminine population is 1.7%, while that of the feminine poor population is 6%. The same rates of average annual growths for the masculine population respectively are 1.8% and 6.6%.

Women under 25 years old are most affected by poverty, widows are not necessarily at increased risks for poverty, and poverty is more present among the uneducated women (in rural environment in particular). **In terms of middle- and long-term policies for fighting women poverty, the scholar deficit of little girls in the past (today's women) was certainly the determinant element; therefore improving the conditions necessary to let women access school and get basic education are considered now to be key to women poverty reduction.**

Children less than 20 years old are more represented in the very poor population than in the population in general. By contrast, in 1998-99, 60 years old persons represented 7.2% of total population versus 5.1% of the poor population. *Moroccan social context leads elderly persons to be taken in charge by their families thus escape poverty.*

**I.1.c For Tunisia**, poverty analysis can be made using micro-data from Household Expenditure Surveys of *l'Institut National de la Statistique* (INS). There is considerable information in 1980, 1985, and 1990 surveys, but there is no observation from 2000 survey and only a non-representative sample from the 1995 survey. The

missing information needed to monitor poverty pattern over time can be generated from the available surveys and INS publications thereon<sup>7</sup>. The **official approach to poverty analysis** is highlighted here, then the alternative one. INS poverty lines are based on *a priori* choice of a *reference group* (the poorest *twentieth percentile*) whose consumption behavior is used to determine the food and non-food components of the poverty line. Estimates of the poverty lines, and poverty incidences during the last two decades, are shown in Table 4, figures in parentheses below the poverty indices represent the percentage contribution of the corresponding group to global poverty.

Table 4 Poverty Lines and Trends in Poverty Incidence in Tunisia

Table 1: The official poverty lines and measures

Year	1980	1985	1990	1995	2000
Urban poverty line, $z_t^u$	120	190	278	362	428
Rural poverty line, $z_t^r$	60	95	139	181	221
Urban poverty incidence, $P_0(z_t^u)$	11.8 (47.7)	8.4 (58.7)	7.3 (64.8)	7.1 (70.1)	4.0 (74.2)
Rural poverty incidence, $P_0(z_t^r)$	14.1 (52.3)	7.0 (41.3)	5.7 (35.2)	4.9 (29.9)	2.9 (25.8)
National poverty incidence, $P_0(z_t)$	12.9	7.7	6.7	6.2	4.2

Sources: INS publications. For expositional simplicity, the original values of poverty measures are multiplied by 100.

The table indicates a continuous decline in poverty incidence in the last two decades, both in urban and rural areas, and a marginal decrease in rate of poverty reduction. This slowdown in poverty reduction over time gives evidence that as the absolute poverty falls, it becomes more difficult to curb it, and calls for a new approach to poverty measurement, (the national, urban and rural reduction of poverty incidence between 1990 and 1995 was really thin<sup>8</sup>). Surprisingly, Table 4 shows that since 1985 the urban incidence of poverty has been higher than rural incidence -a result that is too far from findings of other countries' empirical studies. The INS methodology fails to establish poverty lines that reflect the same living standards in different regions. The twentieth percentile in urban regions are indeed better off than the twentieth percentile in rural regions. The food poverty line will then be higher in urban zones

<sup>7</sup> More details on the issue of data are in Appendix 1 to Tunisia's Country Study.

<sup>8</sup> These results could be very sensitive to the selection of poverty lines. Indeed, since the 1990 and 1995 distributions used to compute them are log-normally distributed, and since the corresponding INS poverty lines are close to the bottom of distributions, it is expected that the poverty incidence will be very sensitive to the poverty lines setting.

reflecting that the better off consume more expensive food on a per-calorie basis, rather than reflecting price differences between urban and rural areas. Further, statistical tests made by the World Bank (1995) have shown that there is little difference in the cost of food between urban and rural areas. The INS approach could not therefore guarantee consistency of their spatial poverty comparisons; it could even yield inconsistency over time in national poverty measures, and the mobility between urban and rural regions should worsen it. This inconsistency should have disorientated greatly the policy decisions designed to fight absolute poverty and policy choices relating to the priority given to urban and rural development. Another issue about the INS approach is its selection of the poverty measure: poverty incidence fails to accurately capture inter-temporal changes in welfare of the poor; it may even indicate a decrease (an increase) in poverty level while an alternative distribution-sensitive poverty index records a rise (fall) in overall poverty. Designing anti-poverty programs on the basis of reducing the incidence of poverty could be misleading as they lead to policies that focus primarily on those just below the poverty line; this can confound policy choices aimed at improving the well-being of the poorest and policy choices concerning the priority given to this segment of the poor versus the not-so-poor.

A reliable inter-temporal and spatial analysis of poverty requires then to consider more than a single poverty line and poverty measure. **Alternative approaches** are thus highlighted. To ensure that poverty lines reflect the same purchasing power across regions, and since the spatial difference of foodstuff cost seems to be thin, the World Bank (1995) suggested to fix the *benchmark group* with reference to the same range of the per capita expenditure level. Roughly speaking, this range should be around the presumed overall poverty line. The ethical content of this choice is that the food basket used to define the poverty line should be consistent with the consumption pattern of households who are not-so-poor. To set food poverty line, the World Bank (1995, 1999) follows better version of the food share method to estimate the poverty lines. Mean caloric unit value for the (new) *reference group* are multiplied by an updated estimate of the predetermined caloric needs, that is 2165 instead of 1870 calories per day used by INS (1980). While the food component of the absolute poverty line is almost universally anchored to food energy needs, basic non-food consumption has no analogous foundation. A common practice is to divide the food component by an estimate of the food budget share. But, like the INS's, this

estimation was often made arbitrary. Ravallion (1998) provided a clear framework to infer the non-food component of the poverty line,  $z_{nf}$ <sup>9</sup>. This approach is followed by the World Bank (1995, 1999) to estimate 1985, 1990, and 1995 poverty lines for the urban and rural areas. Like the INS, spatial and inter-temporal comparisons of poverty made by the World Bank during 1985-1995 are solely based on the incidence of poverty index. Armed with the assembled distributional data, we extend this period to cover the spanning 1980-2000 and we supplement this index by two others, the deficit of poverty,  $P1(z)$ , and severity of poverty,  $P2(z)$ . To infer poverty lines for 1980 and 2000, World Bank poverty lines have been adjusted by the INS consumer price index. Table 5 shows the World Bank estimations of poverty lines and poverty incidence at urban, rural and national level in 1985-1995 supplemented by our estimates for 1980 and 2000, and our estimates of the deficit and severity of poverty in 1980-2000. The figures in parentheses below the poverty indices are the percentage contribution of the corresponding zone to the overall poverty, according to the relevant measure.

Based on this alternative route, the urban rural differentials of poverty lines are much smaller than the INS thresholds. Thus, the incidence of poverty appears to be by far larger in rural areas than in urban areas, as Table 5 illustrates. During 1980-1990, poverty is more than four times higher in rural than in urban areas, and rural areas are accounting for more than three quarters of the aggregate poverty. These ratios were found to get strengthened as we move to more *distribution-sensitive* poverty measures<sup>10</sup>. During 1990-2000 however, the contribution of rural poverty was

<sup>9</sup> The idea is to look at households' behavior whose income is just equal to the food poverty line,  $y_h = z_f$ . These households are able to meet their basic food but prefer to devote (in average) only a fraction  $\alpha_f$  of their income to food intake, and the remaining income to buy non-food commodities. This remaining income can be considered as the lower non-food poverty line  $z_{nf} = (1 - \alpha_f)z_f$  (2)

The lower poverty line,  $z^l$ , is then simply obtained by adding  $z_f$  and  $z_{nf}$ . With the help of (2), we have  $z^l = (2 - \alpha_f)z_f$  (3)

To estimate the key parameter  $\alpha_f$ , Ravallion (1998) suggests the use of the following food-share Engel curve

$$w_{f,h} = \alpha_f + \beta_1 \ln\left(\frac{y_h}{z_f}\right) + \beta_2 \ln\left(\frac{y_h}{z_f}\right)^2 + v_h \quad (4)$$

where  $\alpha_f$ ,  $\beta_1$ , and  $\beta_2$  are the parameters to be estimated,  $w_{f,h}$  is the food budget share of the household  $h$ , and  $v_h$  is the residual term. It is obvious from (4) that the value of  $\alpha_f$  estimates the mean food share of those households who can just meet their basic food requirements. (NB. An upper poverty line,  $z^u$ , could be also numerically computed. It corresponds to the minimum income that is required for a household to devote, without sacrifice,  $z_f$  for food consumption).

<sup>10</sup> This finding is in line with the findings of other empirical studies for Tunisia. See Ayadi et al. (2001) who follow a similar approach to estimate the 1990 poverty lines, and Bibi (2000) who estimates the food component of the poverty line using a linear expenditure system, and the Ravallion (1998) method to infer the aggregate 1990 poverty lines.

reduced from three quarters to about two thirds of overall poverty i.e. rural poverty has experienced stronger downward trend, though with some reversals in 1995, despite the likely misleading findings of the official comparisons of spatial poverty.

Table 5 The World Bank Poverty Lines and the Inference Poverty Measures in Tunisia

Table 2: The World Bank poverty lines and the inference poverty measures

Year	1980	1985	1990	1995	2000
Urban poverty line, $z_t^u$	100	158	218	290	343
Rural poverty line, $z_t^r$	85	134	185	242	296
$P_0(z_t^u)$	7.3 (26.1)	4.6 (21.9)	3.5 (28.2)	3.6 (29)	2.3 (30.8)
$P_0(z_t^r)$	27.5 (73.8)	19.1 (78.1)	13.1 (71.8)	13.9 (71)	8.7 (69.2)
$P_0(z_t)$	17.8	11.2	7.4	7.6	4.7
$P_1(z_t^u)$	1.75 (22.4)	0.89 (18.3)	0.69 (23.4)	0.89 (30.2)	0.5 (31.1)
$P_1(z_t^r)$	8.72 (77.6)	4.71 (81.7)	3.25 (76.6)	3.24 (69.8)	1.87 (68.9)
$P_1(z_t)$	5.37	2.64	1.72	1.8	1.01
$P_2(z_t^u)$	0.65 (19.9)	0.27 (13.9)	0.23 (21.7)	0.32 (30)	0.18 (31.9)
$P_2(z_t^r)$	4.08 (80.1)	1.77 (86.1)	1.21 (78.3)	1.19 (70)	0.62 (68.1)
$P_2(z_t)$	2.43	0.94	0.62	0.66	0.35

For expositional simplicity, the original values of poverty measures are multiplied by 100.

As to inter-temporal comparisons of poverty, with the exception of the 1990-1995 period, Table 5 validates the downward trend of poverty during the last two decades at national, urban, and rural levels, irrespective of whether the incidence, deficit, or severity of poverty is used. But between 1990 and 1995, the table shows that urban and national poverty increased, regardless of poverty measure used. Yet some poverty measures showed a rise of poverty in rural areas while others showed an opposite result. This gives evidence that the choice of poverty lines and poverty measures is usually arbitrary, and calls for *robustness analysis* of changes in poverty (Appendix 3 to the Study on Tunisia), from which the major conclusion is that Tunisia had a strong downward trend of poverty in the last two decades (with some reversal in 1990-1995). During the same period, economic growth was outstanding, about 3% per capita per year. It is of interest to check whether this achievement in dropping poverty is the result of distribution-neutral economic growth or re-distributive pro-poor growth.

## **I.2 Growth and Poverty**

**I.2.a. In Egypt, the correlation between poverty and growth** is observed both *over time* (poverty incidence decreased in 1995-2000 with the growth rate increase, then rose with the subsequent slowdown in growth, as noted above) as well as *regionally* (poverty in 1995-2000 fell by 8% in Metropolitan and Lower Egypt but rose by 5% in Upper Egypt in association with annual per capita GDP growth rates of 11%, 7.2% and only 2.8% in the three regions respectively).

Growth in the 1990s was not sustainable as it was not associated to productivity increases, and was driven by strong domestic rather than export market demand. Egypt National Competitiveness Council Report (2004) states that:

- a) In spite of recent improvements in the external sector (owing to currency devaluation and reduced imports due to economic activity slowdown), the 1990s' economic stabilization was in recent years undermined by a deteriorating fiscal situation coupled with accelerating inflation, slow structural reforms and a halted privatization program,
- b) Low domestic and national savings rate impede achievement of the growth rate necessary to accommodate a fast-growing labor force and reduce existing unemployment,
- c) Egypt lags behind peer countries in indicators of trade competitiveness and FDI openness,
- d) Investment decisions are affected by uncertainty about economic policy and serious constraints to the business environment that substantiate that importance of tax and tariff reforms and judicial reforms aiming at reducing business transaction costs.

By end 2004 and early 2005, major reforms in this area have taken place (some of will be highlighted in Section II under 'legislation') including:

- a) corporate tax reductions and improvements in tax-collection methods,
- b) custom tariff reductions, and,
- c) creation of one-stop-shops for company-registration procedures, aiming to significantly reduce bureaucracy and investor transaction costs.

**As regards employment**, the government halted its employment-guarantee scheme since 1990/91 with the Economic Reform and Structural Adjustment Program (ERSAP), but established the Social Fund for Development (SFD) to alleviate

negative impacts on the youth and poor segments of the population. It is a quasi-governmental body reporting to the Prime Minister. SFD received LE 7 billion to-date in grants and loans, from about 15 multilateral and bilateral donors. SFD is involved with small and micro- credit as well as public works projects and human resource development. Project Implementation Units (PIUs) are set-up in each governorate; and priority infrastructure projects and community development projects (health, education, training female family-heads) are determined by the governorate. The amount of total funds allocated to each governorate is initially set in light of socio-economic indicators e.g. income, unemployment, number of hospital beds per capita, access to water, unpaved roads, etc. In the credit activity, SFD has for long relied on using below-market interest rates, for social considerations; but recently moved to market interest rates for microenterprises and the existing, rather than start-up, small enterprises, (start-ups should constitute at least 20% of the portfolio). To-date, LE 4.3 billion were disbursed in small loans and helped create 764,000 jobs, and LE 2.6 billion in micro loans and public works projects and helped create 618,000 jobs including short-term jobs. Public works projects use labor-intensive techniques on best effort basis; it is a 'self-targeting' program because the wages offered are below market wages.

According to the 'Impact Assessment' by the Multi-Donor Review Mission of 2004, SFD had a positive impact on enterprise growth, employment creation, household income and access to basic services. But disbursements under the small-loan program 'SEDO' decreased, partly due to banks' reluctance to bear the full credit risk, given a low bank spread. It is said that initiatives are under way to transfer part of the risk to SFD's Cooperative Insurance Company and SEDO. (Other reported reservations are discussed in Section III below as they relate to institutional and capacity aspects).

On another front, employment issues are tackled by recent reforms undertaken by the government aiming to remove constraints to private business in Egypt as noted earlier. Constraints were mostly in bureaucracy and in areas of taxes and customs (vis-à-vis both rates and administration, especially the duty drawback system). Section II also addresses this, as a token of government's commitment to PRS. Employment issues are directly and indirectly addressed by the PRS prepared by the World Bank (WB) in 2004, and the PRAP of 2005, both prepared for the Ministry of Planning and highlighted later in this section.

**I.2.b In Morocco**, the recent evolution of the macroeconomic framework, and the effects of the economic policies pursued during and after the Structural Adjustment Program (SAP) in 1983-1991, probably had negative effects on certain population categories. The stabilization of the economy in itself did not drive to serious recession as expected; Morrison (1991) asserted that *‘Morocco succeeded in reducing principal imbalances without reducing income per inhabitant or accelerating poverty, and avoided major social disturbances’*. There were positive external factors; the results that redraw GDP growth rates for the period of adjustment are linked to climatic conditions but were also sustained by export expansions. But the moderate growth during and after the period of adjustment was not sufficient to absorb the unemployed and the annual new flows of job seekers. Without evident link of causality, it was recorded that unemployment among the poor is more important in urban than rural milieus: in 1990-91, the unemployment rate was 30% and 7% for the poor population in urban and rural regions, while overall rate was only 20.6% and 5.6% respectively for the two regions. In 1990-91 the probability to be unemployed was higher among the poor. If no direct relationship is established between the SAP policy constituent and poverty levels, it is still likely that an indirect link can be supported: the escalation of unemployment increases the number of the poor and underprivileged. The World Bank (1993) specifies that *‘under-employment is the main cause of poverty’* in Morocco and *‘unemployment is tightly linked to poverty’*. It is now confirmed that the SAP and other implemented economic policies are accompanied by an acceleration of the unemployment rate thus poverty aggravation, in the absence of an effective unemployment/social insurance system. Households with unemployed members experience deterioration in their quality of life and head towards poverty. Moreover, it is known that lower level employees represent an important part of poor populations, the wage policy applied by public authorities have always supported the growth of nominal value of the ‘Guaranteed Inter-professional Minimum Salary’ and ‘Guaranteed Agricultural Minimum Salary’; this policy comparatively protected some social classes that were discriminated against, despite inflation. Salary adjustments did not always compensate the beneficiaries for the loss in purchasing power, but have however protected, in a certain measure, this category of the population from more poverty. Inflationary macro-economic policies should be avoided, or used

cautiously, to reach certain equilibrium with regard to economic growth and the inflation level. A tight monetary policy resulted in a reduction in rate of inflation to no more than 5% in recent years versus 10% in the early eighties.

Growth in Morocco was weak and irregular. Table 6 shows that average annual expenditure by household and by head was nominally growing at all levels (urban, rural and national) during the last two decades, but negative growth rates between 1990/91 and 1998/1999 confirmed the deterioration in poverty between those two dates. Between 1984/85 and 1998/99, growth rates were positive, but weak. **The World Bank (2000) underlines that the weakness of growth in Morocco is responsible for up to 84% of the poverty increase; the remainder is the result of bad distribution of this growth** among the population. Datt and Ravallion's decomposition technique (1992) confirms this remark<sup>11</sup>. Negative real growth rates between the two investigations 90/91 and 98/99 were the strongest determinant variable explaining poverty evolution in Morocco between the two dates.

Table 6: Growth in Average Annual Expenditures by Household and by Head in Morocco

(In Dirham value of 1990)	<i>Between 1984/85 &amp; 1990/91</i>		<i>Between 1990/91 &amp; 1998/99</i>		<i>Between 1984/85 &amp; 1998/99</i>	
	<b>Growth Rate</b>		<b>Growth Rate</b>		<b>Growth Rate</b>	
	<i>globally in %</i>	<i>average in %</i>	<i>globally in %</i>	<i>average in %</i>	<i>globally in %</i>	<i>average in %</i>
Urban	30.41	4.52	-18.14	-2.82	6.76	0.50
Rural	22.60	3.45	-9.04	-1.35	11.51	0.84
Total	29.70	4.43	-1.77	-1.77	14.44	1.04
Urban	35.42	5.18	-23.53	-3.76	3.56	0.27
Rural	26.51	4.00	-11.66	-1.76	11.75	0.86
Total	35.04	5.13	-15.20	-2.33	14.52	1.05

Foreign trade reforms were an integral part of growth-generating macroeconomic policies, but there is no consensus on their effect on poverty: short-term effects are sometimes negative while long-term effects are positive; deeper analysis is lacking. Trade opening up leads to resource re-allocation in favor of export sectors, which are generally labor-intensive in developing countries; but output-employment elasticity is weak: the expected employment creation is thus not always possible. Simultaneous policies such as public sector reform and contraction of non-competitive sectors lead to ambivalent if not negative results. In the absence of official unemployment insurance systems, poverty rises in the short run.

<sup>11</sup> See Appendices to Morocco's Country Study.

The agricultural countryside is among the factors that determine in a crucial way the evolution and the performance of the Moroccan economy and have a direct effect on poverty, yet no serious analysis is available on the management of poor rural households. Another more or less exogenous factor has also a rather big influence on the evolution of poverty: Moroccan workers' flow abroad. Fund dispatches largely contributed, since more than three decades, to the reduction of poverty for a large number of households. It is estimated that about 500,000 persons benefited from transfers without which almost 180,000 persons would be among the poor; this figure is about 5% of the 1991 poor population. The authorities adopt, with more or less successes, macroeconomic policies, mainly monetary (especially exchange rate) policies, that encourage funds and savings repatriation into investment in the country.

**I.2.c In Tunisia**, to assess whether the observed changes in the distribution of income were pro-poor in 1985-1990, the World Bank (1995) estimated the distributional component of a poverty measure, as obtained by fixing the mean relative to the poverty line, and then observed how the selected poverty measure changes. (NB. This is Datt and Ravallion's (1992) which decomposes poverty change into a growth component and a redistribution component). If the income distribution had not changed (that is, the Lorenz curve had not shifted), the World Bank found that the economic growth would have reduced the incidence of poverty from 11.2% in 1985 to 8.5% in 1990, instead of 7.4% really achieved. Hence, roughly two thirds of the poverty decline was attributable to the growth in mean consumption and the rest to improved distribution. Economic growth during that period was then pro-poor since the growth rate in the mean consumption for the poor was greater than growth rate in the mean consumption for the whole population. Ravallion and Chen (2003) advocate a more direct approach. They suggest to compute the mean growth rate for the poor instead of the growth rate in the mean (consumption or income) for the poor; to this end, they calculate the growth rate in the mean of each income quintile. It follows that a *growth incidence curve* shows how the growth rate is distributed across different quintiles ranked by income. A relevant pro-poor growth could be inferred by calculating the mean growth rate for the poor i.e. by integrating the *growth incidence curve* over the poor segment (Appendix 4 to Tunisia's study).

For each of the 1980-1985, 1985-1990, 1990-1995, and 1995-2000 periods, Figure 4 in Tunisia's Country Study displays the estimate of *growth incidence curve*, the mean growth rate curve for the whole population, and the growth in the mean income ( $\gamma_t$ ) curve<sup>12</sup>. With the exception of the 1990-1995 period, the curves clearly show that the income growth rates for those at the bottom of the distribution is often larger than the mean income growth rate, so that growth was *really* pro-poor; especially during 1980-1985. During that period indeed, oil export earnings were high, leading to high public investment in infrastructure, rapid increases in public sector wages, and generous subsidies on many foodstuffs. As Table 7 reports, these policies led to a higher growth in the mean consumption per capita than in the real GDP per capita, with 3.36% for the former and 1.5% for the latter. These economic policies should be behind the downward sloping trend of the growth incidence curve in 1980–1985 (Figure 4 of Tunisia's Country Study), principally for the 10% poorest group of the population. This leads to a two-edge impact on absolute poverty: increasing substantially poor's income and reducing inequality within that group, as the sharply downward trend for the 10% poorest group of the top left Figure 4 indicates. This is confirmed by Table 7 which shows too that these policies were *really* pro-poor since, for many poverty settings,  $PPGI_{1985}$  is always greater than 1.

Table 7 Pro-Poor Growth Indicators in Tunisia

Table 3: Pro-poor growth indicators

Year	1980 - 1985	1985 - 1990	1990 - 1995	1995 - 2000
Mean growth	3.56	2.25	-0.23	3.45
Growth in mean, $\gamma_t$	3.36	1.64	0.03	3.41
Growth in p. c. GDP	1.5	0.6	1.9	4.2
Growth in agr. GDP per worker	5.51	3.75	-3.52	6.67
$PPGR_t$	$PPGR_{1985}$	$PPGR_{1990}$	$PPGR_{1995}$	$PPGR_{2000}$
World Bank $P_0(z_{t-1})$	5.37	2.18	-0.21	3.73
$P_0(z_{t-1}) = 10$	6.48	2.11	-0.22	3.76
$P_0(z_{t-1}) = 20$	5.16	2.41	-0.34	3.65
$PPGI_t$	$PPGI_{1985}$	$PPGI_{1990}$	$PPGI_{1995}$	$PPGI_{2000}$
World Bank $P_0(z_{t-1})$	1.51	0.97	0.93	1.08
$P_0(z_{t-1}) = 10$	1.82	0.94	0.96	1.09
$P_0(z_{t-1}) = 20$	1.45	1.07	1.47	1.06

<sup>12</sup> These curves validate the results yielded by the robustness analysis referred to earlier.

Unfortunately, such a pattern of growth could not be maintained, since it led to a rise in foreign debt then adoption of the structural adjustment program in 1986. But under the adjustment reforms, the government cut social expenditures less than other expenditure categories. In 1985-1990, social spending roughly grew at the same rate of GDP and food subsidy cuts were still weak. Climatic conditions were so favorable that agricultural output grew at 3.75% per worker during that period. Hence, the mean consumption during 1985–1990 grew always at a higher rate than the real GDP per capita, and gains from economic growth were spread across the poorest at least as much as across the non-poor as the top right side of Figure 4 (Tunisia’s Country Study) shows. Meanwhile, growth pattern was either *highly enough* pro-poor, as  $PPGI_{1990} < 1$  for some poverty lines, or *really* pro-poor, as  $PPGI_{1990} > 1$  for others.

Surprisingly, the Tunisian economy was found in a symmetric situation in the first half of 1990s. Per capita GDP and the mean consumption increased while growth rate in agricultural GDP and the mean growth rate in consumption were negative, following a high incidence of droughts. The weak increase in poverty reported in Table 5 should be then largely explained by the drop in agricultural production. Further, for the 1990-1995, the slopes of the growth incidence curve switched sign more than once. Yet the slope of this curve is broadly negative for the 60% less well-off of the population and positive for the others; meaning that the recession which characterized this period has mainly hurt the poor. This is confirmed by Table 7 since the  $PPGI_{1995}$  ranges between 0.93 and 1.47. The economy had an acceleration in economic growth during the second half of 1990s. Table 7 shows that this economic growth was supported by a higher growth in private consumption on the demand side, and an expansion in agricultural output on the supply side. Further, Figure 4 (Tunisia’s Study) shows that the poorest decile of the population has profited most from this economic performance, letting the growth pattern really pro-poor. Table 7 confirms this as the value of the  $PPGI_{2000}$  is higher than 1 for many poverty settings.

### **I.3. Human Development and Achievements under MDGs**

**I.3.a In Egypt**, the progress towards the Millennium Development Goals (MDGs) during the last decade is highlighted in Table 8 for a number of main targets / indicators, and reflects the fact that considerable priority is given thereto.

Table 8: Progress Towards MDGs: Main Targets / Indicators (Egypt)

	1990 (health indicators: 1992)	1995/96		1999/2000 (or 2001/02)		Will the goal target for 2015 be met:
People below Lower Poverty Line	24%	19.4%		16.74%		probably
People not getting caloric requirements	25.5%	--		14.0%		
Net enrollment in primary education Literacy 15-24 years (by sex)	--	M	F	M	F	potentially
	--	89%	82%	94%	91%	
Ratio of literate females to males 15-24 years	--	77.8%		85.5%		potentially
Ratio of females to males in primary education	79.9%	--		84.5%		
Unemployment by sex	--	M	F	M	F	--
		7.4%	24%	5.6%	23%	
Under five mortality (per 1,000)	85	--		54		Probably
Infant mortality (per 1,000)	68	--		44		
Maternal mortality (per 100,000)	174	--		75		
Combat HIV/AIDS (per 100,000)	--	--		--		Lacking data
Malaria & other disease	--	--		TB: 32		probably
Access to improved water source *	--	--		91%*		potentially
Access to sanitation *	--	--		93%*		

\*Water and sanitation information are from EHDR, 2004. Reservations on these two ratios relate to large urban-rural disparities whereby rural percentages are in the range of 80%; also because of misleading ratios in cases where connections were installed to geographic areas but not in-house.

**I.3.b. For Morocco**, halving poverty between 1990 and 2015 as recommended by the MDGs is a difficult task to achieve in the absence of more economic policies and a strong sustained economic growth adequately targeting the poor. Under UNDP's Human Development Index (HDI), Morocco's evolution is indicated in Table 9; its worldwide ranking oscillated between 110 and 130, among 160-180 countries i.e. behind almost all Arab countries, in the group with weakest HDI-average (between 0.5 and 0.8). Studies showed that for this group of countries, the only effective way to improve HDI-level is an economic uniform and sustained growth; this is completely solid for the case of Morocco. As to HDI-components, average developing countries *adult literacy rate* was more than 72% in 1998 versus 48% for Morocco; the gap in *education rate* is 12 points compared to developing countries (48% versus 60%), and 31 points compared to worldwide average; *life expectancy at birth* thanks to efforts undertaken in Morocco (but also because of the problems of other developing

countries who are facing certain diseases), is 5 years above developing countries' average, and per capita GDP shows that Morocco is ranked at developing countries' average (\$US 3,305 PPP); but this is hardly half of the global average of \$US 6,526.

Table 9: Evolution of the HDI in absolute value in Morocco

Years	1960	1970	1975	1980	1985	1990	1995	1998	1999	2000	2001	2002
HDI	0.198	0.268	0.429	0.474	0.508	0.540	0.557	0.589	0.596	0.602	0.606	0.620

As to the Human Poverty Index (HPI-1), measuring poverty with regard to 'capabilities and performance', it improved for Morocco from 41.7% in 1997 to 33.1% in 2000. But this indicator was in 2000 only 23.4% for Algeria, 9.4% for Mexico and 4.1% for Chili; Morocco thus has a long way to go in the process of catching up.

**I.3.c Tunisia** is doing well in terms of human development indicators. Table 10 shows health level improvement (increase in life expectancy, fall in child mortality), almost universal primary education, illiteracy is close to becoming eradicated among younger generations and population growth was controlled due to a family planning program undertaken in early 1960s. These are important factors behind the reduction in the poverty headcount over the last four decades.

Table 10 Human Progress in Tunisia

Table 4: Human progress

Year	1975	1984	1994	1999
<b>Population</b>				
Fertility rate	5.8	4.7	2.9	2.09
Growth	2.3		1.6	1.13
<b>Health</b>				
Life expectancy	58.5	65	71	72
Mortality rate under-5	15	7.6	3.7	3.9
population per physician	5900	2400	1762	1259
<b>Education</b>				
Enrollment primary, male	90.4	97.8	99	99.1
Enrollment primary, female	62	83.4	95.4	97
Illiteracy rate, youth male (15-24)	20	11	5	3
Illiteracy rate, youth female (15-24)	53	35	18	7.4
<b>Access to infrastructure</b>	1985	1990	1995	1999
Improved sanitation facilities	71	76	89	94
Improved water source		75	87	91.6

Sources: UNDP (1999), World Bank (2003), Global Development Network, and Societ Tunisienne d'Electricit et du Gaz (STEG).

## I.4 Public Expenditures

**I.4.a In Egypt**, public expenditures on social sectors were protected from cut down. Table 11 indicates the trend in budget allocations to social sectors, both in absolute values as well as in percentage of total expenditures. In fiscal year 2004/05, there was a rise from 37% to 40% of total state budget, due to increase in subsidies, mostly food subsidies. Some youth-related expenditure is included (LE 1.1 billion), for training, loans for small businesses, and for 150,000 government job opportunities.

Table 11: Public Expenditure on Social Sectors in Egypt, and Percent in Total Budget

(in LE billion)	2001/2002		2002/2003		2003/2004		2004/2005	
	LE	%	LE	%	LE	%	LE	%
Subsidies, Social Insurance, Pensions	21.3	16.8%	22	15.4%	27.2	17.1%	36.5	20.6%
Education	19.8	15.6%	22.5	15.7%	23.8	14.9%	25.8	14.6%
Health	7.2	5.7%	8.4	5.9%	8.3	5.2%	9.1	5.1%
Total	48.3	38.1%	52.9	37%	59.3	37.2%	71.4	40.2%

**I.4.b In Morocco**, the budget deficit was brought back to controllable levels relative to GDP, mainly due to reduction of state expenditures, the balance of payment current account balance was controlled: it fell from 12% of GDP in 1982 to 2% in 1992, where it stabilized for several years, and exchange reserves at end 2003 exceeded 12 months of imports. Fiscal reforms were in three directions: a new tax of production activities was adopted by the instauration of a added value tax in 1986 (meant to replace the former tax on products and services), a tax on society profits replaced the professional profits, and the tax on general income followed. Results of enterprise reforms are usually correctly perceived only in the medium and long term; but by several indicators, the economy succeeded in its internal and external adjustment in spite of unfavorable international conditions (fall in demand and price of phosphate), and almost permanent drought cycle in the last two decades. This gave confidence to foreign investors thus increasing their investments in the country.

The SAP and associated budget policies seem to have succeeded in not significantly reducing the expenditures devoted to basic services sectors (nutrition, housing, health and education), despite the fight against deficit. They were able to prevent the return of the disadvantaged classes to the precarious position where they have been. Thus,

since the application of the SAP in 1983, the education sector has always benefited from good budget shares and the figures of the national education increased from 164,790 in 1981 to 268,149 in 1995. Several social benefits were also maintained: school nutrition, secondary school and higher education scholarships, residences and university restaurants, etc. Expenditures on education and health decreased from 6.5% to 5.3% and from 1.1% to 0.9% of GDP respectively between 1982 and 1991.

But from another point of view, social sectors in Morocco were below expectations, even vis-a-vis countries of comparable development levels. This situation aggravated after SAP-imposed expenditure cuts: social expenditures per inhabitant decreased in real terms by 23% between 1982 and 1990. It is now undisputable that well-targeted public expenditures constitute one of the powerful instruments to absorb, alleviate and reduce poverty. In Morocco, in an attempt to reach a fiscal restructure, expenditures strongly diminished from 34% to 26% of GDP between 1982 and 1991. But between 1990 and 1995, according to the functional classification of the State Budget, public expenditures registered a nominal increase of more than 40% and represented more than 38% of the budget for debt-service and unforeseen expenditures.

(For Tunisia, the use of public expenditure for poverty reduction is addressed under the following section on PRSs).

## **I.5 Poverty Reduction Strategies (PRSs)**

**I.5.a In Egypt**, no specific ministry is solely responsible for PRS planning and implementation. Social safety net programs are provided by the Ministry of Social Affairs. The Ministry of Planning (MOP) is heavily involved in poverty reduction being in charge of preparing the **National Five-Year Plan for Socio-Economic Development (FYP)**. Also noting that the World Bank's Poverty Reduction Strategy of 2004 has been prepared for MOP, the Municipal Initiatives for Strategic Recovery (MISR) Program is mainly implemented by MOP (with other ministries as partners), and a Poverty Reduction Action Plan of MOP was prepared in 2005.

Poverty reduction is within the general framework of the FYP of 2002-2007; but the benchmarks referred to in FYP are those of the "Vision for Egypt's Development by

2022”, namely: 10% poverty incidence by 2022, 7% illiteracy, 6% GDP annual growth rate, 5% unemployment and 3% inflation. The quantitative targets that were set for the FYP duration, for a number of areas that relate to poverty and human development, are indicated in Table 12.

Table 12: Selected Targets of the Five-Year Plan in Poverty-Related Areas in Egypt

	2001/02	2002/03	2006/07
Illiteracy	30.6%	27.4%	22.6%
Enrollment (pre-university education)	91.5%	93%	95.7%
Class density (pre-university education)	40.7	39	35.8
Maternal mortality per 100,000 live births	38	36	33.2
Child mortality (below 5 years) per 1,000 live births	30.2	29	22.5
Infant mortality per 1,000 live births	25	23.9	21.1
Number of beds per 10,000 people	21	22	23

FYP’s objectives include poverty reduction and social safety provision, improving the quality of life and standard of living through expanding basic services (education, health, water and sanitation) particularly in rural areas, female participation in development, creating 680,000 jobs annually by activating the different employment and training programs, providing soft loans for small and microenterprises (SMEs) and increasing their access to bank finance and financial leasing. SME-institutionalization through associations and a general federation is among FYP’s policies, setting mechanisms for marketing their products, and providing them with market information and quality control. FYP’s employment strategies also include the motivation of domestic and foreign investment, upgrading training centers in a way to match labor market demands (noting that unemployment is highest among graduates of technical secondary schools), activating the role of employment-offices and creating a database for labor supply and demand. FYP also aims at raising farmers’ income through productivity enhancement (better use of technology, better use of research, enhanced inputs, better veterinary services), expanding in high-value crops, fair crop prices, enhanced transportation facilities especially in the export sphere, as well as giving priority in land ownership for the landless and small landholders.

The National Democratic Party (NDP, ruling party) declared its strategy for poverty reduction in 2004; it is highlighted in Section II. Also MISR program referred to above is highlighted in Sections II and III.

**The World Bank's Poverty Reduction Strategy (2004)** is based on three key areas as follows:

***--Increasing Current Earnings through Growth and Employment:*** Pro-poor growth necessitates pursuing macroeconomic policies that aim to reduce the rate of inflation, suitable exchange rate (that does not discourage employment in labor-intensive export sectors), reduce the tax burden for the poor, raise poverty-oriented budget expenditures while addressing the problem of leakage to non-poor, raise poverty-oriented investments for Upper Egypt by decentralizing public investment planning and focusing on labor-intensive investments. Microeconomic policies would aim to ensure input-availability to SMEs (finance, market information and linkages to large firms), reduce regulatory constraints for SME start-up and exit, support rural development through agricultural extension services to help shift to high-yield non-traditional crops in Upper Egypt, and enhancing small farmer access to finance.

***--Increasing Future Earnings through Education:*** Combat of adult illiteracy through wider use of civil society groups, providing stipends for literacy class participation, parent education on health and nutrition aspects, raising the return to basic and secondary education through teacher skill enhancement and emphasis on performance evaluation systems, enhancing accountability by empowering parents and community, emphasizing student technology skills, reducing the cost of education to the poor through stipends conditioned by attendance, setting up more schools in poor and remote areas, and facilitating girls' access through shorter distances and female teachers.

***--Protecting the Vulnerable through Social Safety Nets:*** Improving the public poverty-oriented transfer system especially in poorer governorates through better targeting of the Ministry of Social Affairs' cash transfers and the food subsidies, building a cadre of outreach workers to work with NGOs in identifying and enrolling the poor in remote areas in social assistance programs, improving geographical coverage through increasing the number of outlets of subsidized bread in rural areas, improving the poverty-orientation of the Social Fund for Development (SFD) by geographical areas and income groups, and institutionalizing poverty-oriented monitoring and evaluation within SFD, facilitating private remittances and charity payments to the poorest (through more bank branches in remote areas and simpler registration procedures for charity organizations).

**The Poverty Reduction Action Plan (PRAP)** has been prepared by the MOP in 2005 and is being discussed by the Cabinet of Ministers<sup>13</sup>. It proposes interventions in the form of policy-changes (subsidies and social protection) as well as programs that directly or indirectly affect poverty:

***--Social Safety Nets:*** a) Prepare to transform to a system of cash subsidy to purchase basic food, or using 'food stamps' or 'smart cards'. Target groups to be identified by Household Income, Expenditure and Consumption Surveys (HIECS); but as they work in informal activities difficult to identify, decentralization is needed and civil society units' support in identifying target groups, to ensure subsidy delivery to eligible candidates. During a 2-3 year transition period, the present in-kind subsidy system to be improved by updating ration-card registration system to avoid bias towards average and low-income government employees (while increasing the salaries at the bottom of the employment structure within the framework of state's administrative reform program), verifying that the household's income does not

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<sup>13</sup> For details, see 'Poverty Reduction Action Plan, Feb. 2005', prepared by the Economic Research Forum (ERF) with support of UNDP.

exceed the household tax exemption threshold (i.e. LE 5,000, which is almost the 1999-2000 Lower Poverty Line for a five-member household, plus LE 4,000 individual exemption), targeting the informal sector through household-head characteristics e.g. illiterate, seasonal irregular workers, agricultural workers (landless or having less than one *feddan*), and female household heads. Also strict monitoring of rations distribution shops and ensuring community monitoring to prevent leakage and ensure quality, increasing the number of ration shops and subsidized bread (particularly in Upper Egypt), and redistributing such outlets to villages and poorest districts according to human development indices (local municipalities are more capable of identifying the sites of urgent need in their jurisdiction). B) *Raising the efficiency of GOE's current school nutrition program* by prioritizing high-poverty villages/districts, raising budget resources, encouraging financial contributions from residents/civil society (by overcoming constraints to NGO participation in funding and oversight) and from the private sector (by tax deductions) and supporting the participation of local communities in monitoring to verify quality and prevent leakage. C) *Improving the Health Insurance System Performance and Effectiveness*: eliminating the dual role of the Health Insurance Organization (HIO) so as to act as a financier only –not a service provider- and a developer of standards and specifications for service providers. This will improve the service, and reduce the costs related to HIO's huge administrative body and HIO's losses due to improper consumption/distribution of medicine. D) *Widening the Social Safety Nets Scope*: Through improved targeting and more financial contributions; informal sector workers to be covered by the comprehensive insurance system. E) *Unemployment Benefits, Labor Restructuring Committees*: the present unemployment insurance system is limited to those who were previously unemployed, while unemployment rate is highest among new labor-market entrants. Labor re-structuring committees to be formed, of management and employees' representatives, to seek alternative solutions for laid off employees (mobilize resources to offer re-training, help them set up SMEs, or re-distribute them to other firms). As to new entrants to the labor market, international experience suggests a "Social Reinsurance" program starting from the academic study phase of students where they pay small annual amounts into a special fund whose revenues are re-insured, so that unemployment insurance would be paid to those who do not get employment opportunity for a certain period of time after graduation.

**--Job Creation through SMEs and Public Works:** A) SME policy recommendations include allowing micro-credit NGOs to be supervised by specialized bodies, allowing the Principal Bank for Development & Agricultural Credit to grant small-farmer loans at unsubsidized interest rates to ensure sustainability (while supporting extension service agents' training and incentive payments to increase crop and livestock productivity thus farmers' income, and agricultural mechanization loans designed in a way to serve the landless in spite of lack of land-collateral), eliminating the constraints facing the micro-leasing finance sector, and supporting SMEs' hiring of labor by bearing (by the state) part of social insurance costs. Programs include training micro-entrepreneurs on dealing with tax- and social insurance authorities to encourage them to formalize (to have better access to finance and better chance to grow with no police harassment), supporting the Credit Guarantee Corporation in providing guarantees to commercial banks to cover bank credit to micro-credit NGOs, and help the NGOs obtain ratings by international firms thus qualify to borrow from local and foreign finance firms. B) Public Works: Policy recommendations include giving priority in budget allocations to existing projects' maintenance rather than new project implementation, more autonomy to local governments for allocations, developing the irrigation water tariff system while compensating poor farmers through fair pricing of agricultural crops and/or exemption from agriculture land tax, simplifying bureaucratic procedures for applying for tax exemption, and trying a Decentralized Business Partnership model (tripartite contract) where a private investor injects funds to upgrade an existing public utility, the local government (owner) undertakes operation and maintenance through its technical departments and authorizes an NGO to collect user fees and raise public awareness of the benefits of cost recovery; then the local government gets back its utility after the investor recovers his capital plus profit over a

number of years. Programs include covering the irrigation canals with pipes to reduce water pollution and evaporation, embankment of river-sides to reduce fertile land erosion, rehabilitation of drinking water pipes, installation of water meters, sanitary sewage projects in target poor areas, and small loans for water and sanitary house-connections.

**--Establishing 12 New Villages in New Areas:** Relocating 12,000 people of high density governorates to El Salam Canal Area within the framework of the National Project for the Development of Sinai, providing them with extension services and long-term house-loans, as well as agro-processing and marketing/distribution companies.

**--Slum Upgrading:** A participatory methodology with different administrative levels of a district, local community, NGOs, and the private sector. Priority is for settlements with severe lack in basic needs, but also having a political support and transparent and accountable good governance. Rapid needs assessment to take place, then participatory planning and budgeting. Improving houses (with priority to water and sanitary drainage). Stakeholder Councils to be set up with all parties represented, coordinated by District Head; a Development Department to be established in each district for implementation and follow-up of local development plans. Government's recent tendency to provide governorates with authorizations is a strong inclination towards decentralization that should be accomplished by giving mandates to lower levels e.g. Districts; the political regime's support to the culture of participation builds trust, emphasizes transparency, and raises the feeling of social responsibility. These principles are essential especially with the expected decrease in government expenditure due to the contributions of the community, private sector, and donor agencies. A budget for advisory services needed by District Heads is imperative.

**--Enhancing Capabilities of the Poor through Education and Training:** A) Education: Prompt targeting of Upper Egypt where illiteracy and poverty constitute 48% and 65% respectively. Programs for adult education include: curricula and programs for illiterates of 15-40 years, and training and follow-up of the staff of the General Authority for Literacy and Adult Education (GALAE) on using modern education methods. Regular school programs include: supporting pre-education schools in deprived areas, mobilizing households in deprived areas with children of 6-10 years to help them in school enrollment procedures, a two-year special program in school premises after school hours for children who are drop-outs or never enrolled to help them catch up then continue their education, incentives paid to master teachers from other areas to give on-job-training in target poor areas. Community incentive programs include: improving school health insurance, a national donation program using coupons to cover the costs of education (fees, books, uniform, teacher incentives, etc), and a mobile service for issuing birth certificates and national identity cards offered free of charge for participants in illiteracy classes and other above mentioned programs. B) Training: Vocational training raises productivity and reduces unemployment and poverty. But trainers are poorly paid, and the centralization of governmental training authorities does not allow training centers to meet their needs through using their realized revenues. Recommendations include: businessmen participation in formulating specifications for demand on labor, setting standard specifications for technical educational institutions and vocational training centers, approving the 'dual system' as fundamental for technical education and vocational training, applying decentralization at training centers and allowing them to make use of the training revenues in funding their requirements of supplies and maintenance, considering the establishment of a Fund to provide the applicant with training through soft loans that cover training costs, on the condition that he repays such loans when he finds a job, and establishing an information system on labor market that can help training centers to identify the required skills. Programs include training of trainers, completion of the National Skill Standards Project, reforming the vocational training system and establishing accredited training centers.

**I.5.b In Morocco**, the project of the **Economic and Social Development Plan** of 1996-2000 was the first official document to declare the fight against poverty as a national priority. In the struggle against poverty in Morocco, **two intervention axes were identified**: one with a curative nature and another one that is rather preventative. *The first one covers short-term programs with concrete action plan*, some of which were implemented since the independence and renewed/adjusted. They constituted the seeds of what has later become the security net of the country (national assistance, compensations, school nutrition, etc.). With time, and despite their various problems especially vis-a-vis targeting, these programs have more or less succeeded in touching an important part of the disadvantaged population. As for financing, several of these programs were supported by international organizations. Because of the character and type of these actions, their weak targeting, their functioning methods and the absence of effective coordination, several of these security nets are today more and more questioned. The more solid objection in this context says that the support to production must be based on support to consumption i.e. supporting the poor must aim to be long-termed by ensuring their complete and sustainable integration in economic activity, rather than by temporary additional income or short term transfer.

*The second intervention axis is constituted of all the actions of longer term that form what we can call the policy of economic and social development.* The implementation of some aspects of this policy began right after the independence; it continued to take the form of different economic and social development plans. In the beginning, the objective was not explicitly the fight against poverty; this was considered as a residual phenomenon that would disappear while the country develops. (Moroccan authorities have always promoted the adage ‘Privilege the economic equilibria, and the social ones will follow’ i.e. achieving high growth rates would automatically benefit the poor population and reduce poverty; but time and experience proved that this strategy did not work, especially with a volatile and random economic growth, and such high poverty levels). The policies and actions had components that, supported by others, would reduce poverty. But judging the former experiences, and up to a certain level, these policies do not seem to have been well conceived and were less well-conducted.

Since a little more than a decade now, specific poverty fighting policies have seen the light. The authorities created the **Social Development Strategy (SDS)**:

SDS declared reduction of poverty, especially in rural regions, as its main objective. This strategy, that needed to be integrated, revolves around several angles of which the three main ones are often seen as complementary:

a) *the economic angle* considers the true fight against poverty in the long term to go through a strong and sustained economic growth, coupled with a more equitable distribution. This growth was supposed to help directly, at least partly, the poor population to benefit from the new employment opportunities and generated income, but also indirectly since it allows the government to finance the poverty fighting programs,

b) *the human capital development angle* puts emphasis on the fact that the true fight against poverty depends on enabling the disadvantaged population to access basic social services and infrastructure. The long-term objective targets the reinforcement of the capacities of the population to generate sustainable income that help overcome poverty,

c) *the social support angle* is the most visible one for the poor population but the least effective on the long term, being limited to application to special categories of disadvantaged population: abandoned children, unsupported elderly persons, mothers of families without consistent resources, the homeless, the handicapped idle persons, ..., etc. The three angles of the fight strategy against poverty were short in meeting their targets in several measures, mainly in improving the access of the active poor population to employment and production resources. A second group of measures tried to reinforce and to improve the level of targeting of the different applied security nets to help the poor. Other, more macroeconomic ones, tried to rationalize the social public expenditures while attempting to alter them in favor of the social sectors.

As to the practical plan, a committee has been in charge of defining and consulting the development programs to give to the action plans the needed orientation. A first

**program of social priorities was conceived, 'BAJ1' program:**

The 14 poorest provinces, according to a number of criteria, were planned to benefit from three integrated projects: basic education, basic health and the actions of the national promotion. Since the implementation of SDS, a tendency to reinforce the fight actions against poverty has manifested itself. The social sectors were placed to on top of the priorities, even on the financial budget plan. The most recent actions, which have been taken and which effectiveness is however difficult to judge are:

--The creation of the Social Development Agency (ADS) (1999/2000), whose mission is the contribution to the sustainable improvement of life conditions of the vulnerable population.

-The establishment of the Hassan II Fund, in charge of improving the social habitat, road infrastructures, irrigation projects, the tourism sector, sports and culture, and micro-credit projects.

-For the long run: the adaptation and implementation of education reforms

-The adoption in 1998 of the law on the functioning methods of financial structures implied in the micro-credit system (practices that already existed since early '90s).

It is interesting to quickly signal the objectives of the last economic and social development plan (2000-2004), which did not explicitly set up valued targets for the

different human development or poverty indicators. But it recommended a social policy in this direction; the objective to recover the lags at different levels is there. The adopted objectives regarding the development strategy turn to the necessary development of human resources, through **deep reform of the education system**, with a special **emphasis on the fight against illiteracy and on universal basic education**. In search of a better satisfaction of the population's essential needs while targeting the expansion of social protection and the reduction of disparities, this plan is considered a natural continuation of the SDS. In this respect, an integrated strategy of social development should be left open to additions and modifications. Where the measures of well-being and of its improvement are concerned, the plan has put the objective of **increasing the consumption by head to 2.6% per year between 2000 and 2004**. The first obtained numbers show that this objective would not be attained; the estimated rate does not exceed 1.8%. This is a weak rate only representing an average. Besides, it's not generally the poor households that profit most from growth; it is likely that the effect of poverty can be only marginal, which again increases inequality. More refined analyses on the link between economic growth rates and poverty indices and inequality, try to predict the future evolution of these two phenomena for the years to come.

Today's recommendations for practical and concrete actions admit that all strategies of poverty fighting must be plural and integrated, and must take the poverty profile and its evolution in consideration. Actions must be targeting the 'real' poor people and not based on a generalized spatial plan of the disadvantaged groups. Analyses of social assistance systems showed that several of them are weakening and very poorly targeted. The distribution of social expenditures is operating clearly more for the advantage of the populations of the cities, the socially average groups and not really the poor enough population. It is always **necessary to carry out a re-targeting process of the expenditures** in order to correct the distortions and errors, thus increase the effectiveness of these systems.

**There are two known types of errors when attempting to improve the targeting process** of a poverty-fighting security nets program: a) the first type of error is committed when 'the poor are seen but not attained'; this is the case of programs of very narrow support, b) the second type of error results from the fact that non targeted individuals, of average or rich classes, are benefiting from the programs. This is the

case of the systems with a too large target like for example the universal subsidy of certain basic products. It is desired to try to minimize the two types of errors; but avoiding type 2 error puts a risk of having negative repercussions on the population initially aimed at, which are effectively benefiting of the implemented programs. It is best to proceed with a meticulous case-by-case study of the applied programs.

**On the evaluation of the public action in the fight against poverty**, reports refer to:

- a) Very bad coordination between the different programs and institutions,
- b) Large dispersion of efforts among participating forces, thus program effectiveness,
- c) Participation of the targeted population to program conception/implementation is below the minimum expectations. (Poverty fighting strategies must be conceived on the basis of the priority of needs of the targeted population, which do not seem to be homogenous. The major preoccupations of the rural populations, who are the poorest, are more basic than poor urban households. The first group wants improved access to basic health services, potable water, electricity and education centers, but the second group is preoccupied by other elements of well-being, especially in more urban regions. To correct community infrastructure imbalances, it is imperative to redistribute priorities according to unsatisfied needs, while taking into consideration the flagrant disparities so as to create the appropriate conditions to link the two environments to the social and physical infrastructure. It should be based on a clearer reorientation of the public funds to fight poverty, its causes and origins. Infrastructure like rural roads and their maintenance, barrages and irrigation systems with a more rational and democratic management, the structure of markets' functioning, can all lead to the improvement of life conditions of several groups of the population),
- d) Temporary rather than structured interventions which even if effective on the short-run will be of limited impact on the long run. The action taken from the government's side in regard of the economic management at a sector based and macro-economic level has to be reoriented to favor the implementation/consolidation of a primary and secondary distribution system more benefiting to the poor. These sectors can be originating of the classical economy or of the social economy, but must end up in taking semi-formal and semi-informal form to face the problems of unemployment and poverty.
- e) In addition to the Central State, the essential actor, a clearer and more specified role must be identified and assigned to other administrative entities; regional and local groups and associations must participate in all the collective effort dedicated to the poverty fighting and to local development in general. Civil society and the private sector must be coordinated, according to domains and geographic regions of respective interest.

**Poverty evolution trends are ambiguous** in Morocco, where one Moroccan out of five is poor and the other four are in a vulnerable and precarious position and can be counted as poor after any small economic crisis:

*-Budget constraints* indicate no hope for substantial improvements of allocations in favor of direct poverty-related sectors. Budget revenues experience only very weak increase in the short-term (despite the slight decreases in the few upcoming years): the trend is downward given the decrease in various tax rates, disappearance of certain provisional revenues like those of privatization, progressive fall of customs revenues with the enforcement of

agreements with EU and USA, and advanced liberalization of foreign trade. As for expenditures, choices are difficult because of the rigidity of the structure of the expenditures, preponderant wage mass and other unavoidable entries.

*-The historic average recorded levels for the growth rate* remained at 3-4%, while 6-8% is needed (thus needed rates of savings and investment of 23% and 30% of GDP) to absorb unemployment. This is not assured, even with the achievement of institutional and economic reforms whose practical application is already delayed.

*-Unemployment could even worsen in the short run, and in turn poverty, in association with globalization*, competition and capital-intensive production, and in the absence of serious upgrading strategies. Liberalization can increase unemployment as several uncompetitive national activities lose their share in the local and foreign markets in favor of the competing products of the same quality and better price.

-The population of less than 15 years no longer represents more than 30% of total population; *the population in activity age (between 15 and 60 years) will continue to rise in a rather quick manner increasing the pressure on the employment market.*

-The category of the elderly persons will not stop growing, and will put *more pressure on other high priority social sectors, health and the solidarity systems*. The demand addressed to these sectors will grow; facing it with the rather mediocre evolution - in quantitative and quality terms- of the health sector, is rather worrying. This worry is justified thinking about the various problems of the retirement and solidarity systems between generations, that are already experiencing insolvent problems and facing not very encouraging demographic and economic tendencies. Poverty, under all its forms, would certainly appear among the young generation but also among the elderly persons if well-studied strategies are not applied soon.

*-The education system has several inefficiencies*: high illiteracy rates, non-universal primary education, unequal access between the poor and the rich, weak internal output caused by waste, and weak external output materialized in high unemployment of the graduates.

### **Recommendations can be summarized in the following:**

- a) The only sustainable long-term remedy is a sustained labor-intensive growth that is employment generating, whose benefits can be equitably distributed.
- b) It is imperative to create an institutional environment in favor of a sustained economic growth that is employment-generating and sufficiently oriented to the poor.
- c) Sustainable growth is based on investment that needs awaited structural economic reforms to materialize, in order to reach desired levels: not only through laws but on practical and applied level. Reforms should also facilitate savings mobilization to be available to investors, and encourage investors to use them.
- d) Quick setting up of compensation programs and employment alternatives to help the poorest groups (e.g. small farmers), who risk losing their market share following the continuous reduction/removal of various protections. Reallocation and usages of public expenditure, through more targeted programs, should facilitate the adaptation

and the re-habilitation of these vulnerable groups in their current environment, the rural environment, and mainly in their agricultural activity.

e) The fight against rural poverty is necessary but not sufficient: more targeted actions are also to foresee against urban poverty pockets that recently developed through internal mechanisms of economic and social dynamics of the cities, and movement of country populations to urban localities. Precarious neighborhoods that surround most of the big Moroccan cities are pockets where future efforts are required.

f) Mobilization of resources for the fight against poverty are to be sought in waste minimization, proceeds of privatization programs, or again in the revision of the universal subsidy, which is currently very poorly targeted.

g) Analysis of results of the first phase of the implemented SDS must be used to reflect a more ambitious new strategy more targeted to poverty fighting. The three components of the strategy (education, basic health and national promotion) must be maintained with expansion to other regions of the country. This is the objective of some current rural water and electrification projects.

h) Access to markets is essential in the fight against poverty; markets are sometimes absent and weakening in several regions.

i) Also to be addressed is the problem of absence of formal credit (from banks or micro-credit associations) which obliges households to produce less profitable goods to face the liquidity constraints or to produce below optimal quantities.

j) It is necessary to set up for farmers a non-conventional state supported insurance or micro insurance system, that should reduce rural unemployment and poverty.

**I.5.c In Tunisia**, there is no PRSP in specific, but direct pro-poor policies are called for, that promote factor productivity as well as equity. Macroeconomic policies that tend to constraint the combat against poverty include public infrastructure spending biased toward urban areas and against rural areas. Rather, the need is for targeted public expenditures for basic services, spending on labor-intensive sectors (like agricultural), and social safety nets. Details are highlighted below.

**The agricultural sector** is home to most of the poor; per capita expenditure of households headed by an agricultural worker is just 49% higher than World Bank (1995) upper poverty line. Although this should be improved by 2000, it shows that agricultural sector development is fundamental to poverty combat. Agricultural investments help strengthen productivity and productive capacity of the sector, and largely come from public sources: public investments in agriculture increased from US\$ 109 million (at 1995 prices) in 1970 to US\$ 382 in 2000 i.e. average growth rate of 4.26% per annum in real terms. Most of this increase occurred from 1970 to 1985 where public investment grew at an annual rate of 7.2%. Then it declined during the most severe period of adjustment by 4.7% per annum, but recovered in 1990s at 4.63% a year. Public investments averaged about 2.2% of GDP in 1970s, and 1.6-2% in 1990s.

Water resources are relatively scarce; public investments are thus oriented towards irrigation, drainage, and reuse of treated wastewater. **Policymakers consider irrigation as a major tool to reduce rural poverty and income fluctuations, and increase food self-sufficiency.** In 1980, only 3.8% of 1993 cultivated area was (intensively) irrigated and this rate grew up to 8% in 2000. The communal irrigation water distribution systems are in general modern. There are prefabricated canals or low-pressure pipes for surface irrigation and high-pressure pipes for sprinkler irrigation. But surface irrigation remains the most important irrigation technique. Despite the expansion of irrigation, more investments are still needed to treat wastewater, conserve and increase supply, protect the environment and increase water use efficiency. The high cost of investments in irrigation and drainage and operation and maintenance expenditures represent a drain to national budget and have a clear impact on the rest of the economy. Without high efficiency in water use, these costs may remain a burden on the national economy while doing little to enhance and stabilize rural incomes. According to the World Bank (2004), Tunisia recovers about 90% only of the operation and maintenance costs of irrigation water, thus creating disincentives for more efficient use of what is the country's scarcest natural resource.

**Social Safety Nets** in Tunisia are of two types: *targeted* direct transfers to the needy, and consumer food subsidy that is *to some extent universal*. Expenditures on these programs, about 1.5% of GDP in 2000, have decreased considerably in recent years reflecting the fall of consumer subsidy (from about 3.9% of GDP in early 1980 to 3%

in early 1990s and 1% in 2002). Four-fifths of these expenditures are devoted to food subsidy, and about a tenth goes to direct transfers to needy families. The rest covers the administrative costs, like the remuneration of relevant government personnel.

**a. Direct Transfers:** The National Program for Assistance to Needy Families (NPANF) was set up in 1986 with a key role to grant allowances to households living in extreme poverty. Concurrently, this program provides food aid for school and pre-school children, and cash transfers to the handicapped and the elderly poor. NPANF budget expanded nearly two-fold in real terms from US\$ million 23 in 1990 to US\$ million 44 in 2000. Thus, the number of targeted households pushed up from 65,000 in 1986, about 81% of the extremely poor, to 113,500 in 2000 i.e. about 189% of the extremely poor, or about 137% of the extremely and moderately poor. NPANF suffers from difficulties that typically arise in targeting direct assistance to the poor using means tests and socio-demographic criteria: administration is complex, eligibility lists are rarely updated, and coverage is not always extended to those newly identified as eligible. Even when the lists are updated, the absence of serious analysis about the determinants of poverty let the eligibility criteria very general. The lack of such information could lead to leakages to non-poor and under-coverage of the extremely poor. The limited access to unit record data on needy families prevents serious investigations on the effectiveness of NPANF in fighting poverty.

**b. Food Subsidy:** Set up in 1970 with the aim of income redistribution and protecting the purchasing power and nutritional status of low-income segments. Basic staples were available to anyone in unlimited quantities at below-market prices, and the government paid the difference between producer prices and subsidized consumer prices. Government expenditures on that program were substantial throughout the 1980s: 3.9% of GDP in 1980, 3.7% in 1985 and 2.9% in 1990. The universal subsidy program was to some extent successful in meeting its objectives, it was progressive **in relative terms**, contributing over four times more to the purchasing power of the poorest quintile of the population than to that of the richest (as a share of total expenditures). This is not surprising since most subsidies were targeted to food which, by Engel's Law, constitutes a larger share of total spending by lower-income consumers than by the better-off. The presence of this program made the incidence of poverty less serious than it should appear in official statistics. Using the 1990

household survey, then according to the poverty line and the poverty measure chosen, poverty would be 12-23% higher in the absence of this program. But performance of targeting by commodities in reducing poverty do not indicate, however, that it is an optimal transfer design: the program in hand benefited more than twice the richest quintile group than the poorest one **in absolute terms**. This mistaken awarding of benefits to the non-poor reduces the vertical efficiency of this scheme and leads to an important leakage of benefits; the leakage ratio in 1990 was about 75% of the public spending on the program, even though 40% of the population is deemed to be poor.

In 1991, the government launched a reform of this program to improve the targeting of subsidies and reduce expenditures with the least possible impact on lower-income groups. This relied on a self-targeting mechanism based on quality differentiation, ‘inferior’ and ‘superior’ goods. The reforms aimed to transform the program from one that transferred more absolute benefits to the rich to one that disproportionately benefited the poor. Using 1995 household survey, this goal is not achieved since the richest quintile of the population continued to reap more than twice as much as the poorest quintile of these funds: about 29% of food subsidy benefited the richest quintile while only 12.8% assisted the less well-off quintile of the population.

## **II. Ownership, Leadership and Accountability for Poverty Reduction**

### **II. 1. PRS Ownership, Political Commitment, and Link to Legislation**

**II.1.a. In Egypt**, political commitment to poverty reduction is indicated by a number of aspects as follows:

- The incorporation of poverty reduction among the objectives of the National Five-Year Plan 2002-2007 as noted in earlier sections,
- Egypt’s involvement in the UN’s MDG process,
- The National Democratic Party (NDP)’s Declaration of 2004 on the combat of poverty:

Its recommendations include: Continuation/increase of direct subsidy of basic goods, expanding on cooperative distribution outlets, upgrading the ration cards system, reducing customs duties and charges on food products, and formulating a program for property-registration to assist limited income groups in liquidating their wealth, (the government has taken some actions, including a 25% reduction in registration fees). Also surveying targeted groups and upgrading the subsidy mechanism, developing a poverty map and classify stakeholders into poor and limited-income groups to propose suitable programs for each, involve civil society in the provision of assistance programs to benefit from their proximity to targeted groups and ability to monitor the assistance, and to include the participation of municipalities in subsidy design and provision-mechanism (as decentralization helps observe local community spatial uniqueness); service-delivery to limited income groups through outsourcing to specialists, while activating state control on service quality, and raising financial resources to provide programs such as ‘housing for female-headed households’, ‘school uniform’ and ‘milk for school children’. NDP also adopts programs for a) surveying subsidy eligible candidates in rural and urban areas, by NDP-representatives with assistance from Party’s secretariats/committees in villages and districts, b) ‘ensuring bread accessibility to the needy’ by members of the NDP Youth Secretariat in the different constituencies, for monitoring subsidized bread distribution and the proper use of subsidized flour.

--Adopting ‘MISR’ local development program (Municipal Initiatives for Strategic Recovery):

The program applies decentralization and good governance at local level (village and ‘markaz’), participatory planning and transparent/accountable financial management, with the aim of improved service delivery in villages in the poorest 58 *markazes* or cities (with lowest human development indices). A ‘Local Initiatives Fund’ and a ‘coupon system’ are operated at the *Markaz* level. Annual guiding figures for planning are provided, under supervision of the Steering Committee headed by the Prime Minister. The program lasts for 2004-2010, and costs US\$81.6 million, with government and donors’ contributions of \$40.6 and \$40.8 million respectively. It is implemented by MOP and major partners such as the Ministry of Local Development, SFD, the Information and Decision Support Center, The Village Development Authority, the Governors and the UNDP.

**As regards legislation**, a number of laws were issued/amended aiming to impact poverty directly and/or indirectly through improving the business climate, economic growth and job creation. Examples are:

**-Tax Law:** reforms in tax and custom tariff legislation in end 2004 (lower rates and better administration) lead to a better business environment for private investors. The new Law also directly supported low-income segments of population by raising the household tax exemption threshold from LE 3,000 to LE 5,000 per annum (which is equivalent to 1999-2000 Lower Poverty Line, for a family of five members) plus a personal exemption of LE 4,000.

-The previous **Labor Law** did not allow to the entrepreneur any flexibility in terms of the right to dismiss workers; private employers thus resorted to hire workers with no legal employment contracts (or preferred capital intensive techniques of production

where possible). The new Labor Law 12/2003 made it easier for the employer to terminate work contracts within a notice period, and acknowledged that economic conditions can justify redundancies. This flexibility reduces entrepreneurs' reluctance to hire workers, thus a positive impact on employment and poverty. (But workers' social contributions are too high, and employers are required to bear a large share of two thirds; this results in high evasion rates. Law 156/2002 established an emergency relief fund for workers whose wages were partially or totally discontinued due to closed enterprises: the fund draws resources from contributions of 1% of basic wages of workers in all sectors, along with aid, donations and investment yields. But this law covers employees in shut-down firms that had at least 30 employees, while most firms have less than this number: this issue was raised by the PRAP and proposed to be rectified so as to cover firms with less than this number of employees).

**Land Reform Law 96/1992**, effective 1997 after a five-year transition period, reformed the landlord-tenant relationship in favor of the latter: land rent ceilings were removed, and new tenancy contracts became of annual duration only thus allowing landlords to evict tenants and/or dispose of their land. Maximum land ownership was increased (and almost left with no limit in new reclaimed lands). These measures are more aligned with economic efficiency rather than poverty considerations; some studies reported that this had negative impact on many rural households, also noting that poverty incidence is already high in rural areas. But the negative impact on poverty is said to be counter-acted as follows:

-While landlords started by considerably raising land rent, to benefit from the new law, the landlord-tenant relationship shortly adjusted to a compromise situation due to the fact that most landlords do not live in rural areas near their land and are not experienced with agriculture, thus their need for the tenant's services. A relationship of trust was created, and some landlords established 'partnership agreements' with tenants.

-While the new short-duration tenancy contracts could have hampered farmers' access to credit (since credit is usually collateralized by land-possession '*heyaza*'), the Principal Bank for Development and Agricultural Credit (PBDAC) adjusted to the new situation by developing a mechanism through which the crop itself is used as collateral.

-The early 1990s had witnessed agricultural sector liberalization in a way that cropping patterns were no longer enforced, obligatory delivery of certain crops was eliminated, crop-price ceilings were removed, and minimum price guarantee was set up for certain crops. These measures were in favor of the farmers.

Nevertheless, serious constraints in the agricultural sector are reported: a) lack of suitable refrigerated storage and transport facilities, and lack of market information, especially in Upper Egypt where rural poverty is highest (while the warm weather

presents a comparative advantage there in terms of shorter crop production period), and b) the widespread micro-holdings of land hamper economically efficient production, thus the importance of raising farmers' awareness about the benefits of 'collective cultivation of same crop by groups of adjacent farmers' i.e. savings in cost of technology and transport (as applied by EU in Qena governorate).

**The SME Law** issued in 2004 assigned SME development to the Social Fund for Development (SFD), and provided incentives to SMEs including 10% quota in government procurements, 10% share in vacant lands available for investment, soft loans, etc. This could induce informal businesses to formalize their status to benefit from the incentives: joining the formal sector allows to SMEs a better chance to grow legally, better access to finance, and more stability for their workers through official work-contracts. The law stipulates that SFD sets up one-stop-shops for business registration in its offices (or in the General Authority for Investment offices) to issue temporary licenses for applicant SMEs as soon as they provide the documents; temporary licenses automatically become permanent one within 30 days regardless of confirmation by concerned authorities.

A draft **Local Administration Law** will be considered by the Parliament shortly, for decentralization and more use of performance-indicators. Fiscal decentralization will entail investment budget allocations to governorates (sub-national governments) in light of *population size* and *human development indices*, thus avoiding bias to areas whose local council representatives have stronger voice. The same criteria will apply within governorates for allocations to lower levels (cities and villages). Local needs and priorities would be better addressed; thus a positive impact on poverty.

**II.1.b Morocco** does not have a PRSP, but the combat of poverty is part of its national development plans and policies. These are produced by their own institutions, but also including components that were designed or proposed by the international financial institutions. Morocco resolutely turned towards a liberal economy and then to a more democratic political regime. It has undergone a major political transition, as it has witnessed a significant **opening towards the main opposition parties and the civil society**. Pluralistic governments were formed, and civil society has expanded remarkably; King Mohamed VI has also stressed the rule

of law and social progress as the country's main development objectives. **But this transition is still unfolding: so far, the existing political forces have not fully succeeded in building enough consensus and cohesion**; which has slowed the leadership's capacity to pursue more fundamental reforms in favor of main development objectives, including fighting poverty and unemployment. Yet, after the 1997 multi-party elections, the government undertook major comprehensive economic and social reforms in nearly all sectors.

The Moroccan government has expressed a strong resolve to face the economic and social challenges. It has set within its national plan (IXth Five Year Economic and Social Development Plan running from 2000-2004) strategic objectives, including mainly: (i) the achievement of high sustainable economic growth, which should be employment generating and hence poverty reducing; (ii) improved access of the population to basic social services, especially for the poor and with a particular emphasis on women. These objectives are also integrated within the strategic documents prepared with the international organizations such as the World Bank Country Assistance Strategy, and African Development Bank Country Strategic Paper and the Economic and Social Reforms Program.

**In order to reduce poverty**, the Moroccan Government has prepared and implemented its Social Development Strategy (SDS) referred to earlier, not only to provide better services with a special emphasis on the poor, but it is also focused on the social integration of the underprivileged through income generation and new employment opportunities and a better management of a safety net. As a result, clear progress has been made and the Moroccan government has expressed quite strongly and in many ways its determination to improve the social picture of the country.

As regards potable water for instance, the strategy is centered on the Drinking Water Supply Program in rural areas. For the sanitation sector, large programs are presented by municipalities and are being implemented. In Rural Areas, 31,000 villages are being connected through heavily subsidized financial schemes. Women have lower but improving access to education. They find it difficult to benefit from the advantages offered by the different Government reforms in the social, economic and political fields. They cannot fully enjoy the benefits of primary health care and

reproduction, and they are less integrated in economic activities. As a result, a full set of reforms and programs designed and implemented with the help of the World Bank and other international institutions are ongoing to improve the system, and to allow more access for the poor.

**II.1.c Tunisia** does not have a PRSP as noted earlier; but it has national development plans, and policies and instruments to combat poverty. Since gaining independence in 1956, Tunisia has pursued a strategy of **equitable development**, even in difficult times. Tunisia has steadily made rapid progress in social development.

Over the last three decades, there has been a substantial amount of pro-poor projects for local development, which certainly contributed to poverty reduction. Important progress was achieved in education with almost all children today enrolled in primary school. Tunisia has also significantly closed the gender gap and assured legal rights for women. Yet in both education and health, there is much need and room for improvement. In education, quality, much more than quantity, is now the real challenge. As to health, even though it is providing free or highly subsidized care, not only to the poor but to about half of the population, its organization and financial means are not viable. Reforms are being considered to make it more viable: the major reform is to develop a new health insurance policy.

While Tunisia's national plans and policies are the outcome of their own institutions, they integrate various components designed or proposed by the international financial institutions.

## **II.2 Parliament, Civil Society & Private Sector Involvement in PRS**

**II.2.a In Egypt, the parliament** is in charge of discussing and approving legislation, thus has a core role in all above-mentioned laws that impact poverty; the Parliament amends draft laws in coordination with the government. While not directly involved in PRS formulation, the parliament members' discussions are strongly pro-poor; they voice the human deprivation aspects in their respective jurisdiction and follow-up on alleviation thereof. Various ministries are also involved in PRS implementation given

its bearing on social sectors (health, education, social safety nets, etc.) as well as infrastructure and local development. The PRAP of 2005 has two-year cost estimates for its proposed programs, and called for ministry-involvement in implementation and finance thereof, in coordination with civil society, private sector and donors.

**Civil society** has been most effective in poverty reduction, given their proximity to local communities thus better ability to identify priorities and target service-delivery. NGOs have important roles in education and literacy (in cooperation with the General Authority for Adult Literacy & Education), raising people's awareness in preventive health, reproductive health and vaccination (especially in Upper Egypt villages), credit and business development services to SMEs, solid waste recycling projects and environmental awareness. They can also have a role in improving/ updating the ration cards registration system, monitoring ration shops to prevent leakage, overseeing school meals for hygiene and non-leakage, and identifying local priorities for 'slum upgrading' and local plan development and implementation, in cooperation with local authorities and the private sector. (PRAP proposed to set up a National Fund to finance NGOs that implement PRAP programs, with seed money from contributions by businessmen associations, businessmen, individuals, companies, banks, as well as government finance, and contributions from regional and international donor agencies in agreement with the Ministry of International Cooperation).

**Private transfers**, mostly through Islamic charity payments 'zakat', constitute a significant portion of the income of the poor as reported by relevant studies. Also the private sector is involved in various PRS aspects through businessmen associations involved in welfare. Private sector involvement in implementing projects and small income-generating activities will be supported by MISR program, by both large firms and SMEs.

**II.2.b In Morocco**, the government is showing **greater will to cooperate with NGOs** and various associations. Contracts are signed between them and the government charging them of social actions, such as adult literacy programs and micro credits. The Social Development Agency was also created to organize and assist local development activities with NGOs. NGOs and civil society associations were even invited to participate in the discussions of the Five Year Economic and Social Plan

2000-2004. Having evolved into a more pluralistic society it has become however more difficult to build a strong enough consensus building, in particular with regard to institutional reforms, but economic and social reforms continue.

Nevertheless, it seems that the target population is not adequately participating in the conception and/or implementation of programs. The success of poverty fighting strategies will require that participation rises to minimum level of expectations.

**II.2.c In Tunisia**, the government has been creating stronger links between the state and civil society. **Civil society associations and NGOs were developed and called on to organize actions of solidarity and various activities targeting the poor** and to be a major interface in the area of local development. Evidently, a large number of NGOs are indirectly created and financed by the government, especially those specializing in micro-credit; and any association needs a government visa to be legally created.

More and more community driven development (CDD) projects are allowed with the help of NGOs. The purpose here is not to present all the existing CDD activities in Tunisia; only a major case, arguably the most important and the most sustainable one: micro-credit distribution through 128 NGOs, as of April 2005, with support of Banque Tunisienne de Solidarité (BTS). BTS was created in 1997 by the government. Its legal status is like any ordinary bank allowed to operate in all banking fields, but it is actually specializing in small credits and is in charge of the micro-credit line initiated in 1999; its objectives are primarily to finance small enterprises and small employment generating projects and to facilitate the access to financial resources for skilled small entrepreneurs without any collateral. Hence, it is also targeting the poor both in urban and in rural areas, in all sectors but mainly where small enterprises and poorer people are most active (agriculture, handicraft, small scale services, etc). As to BTS micro-credit line, the main financial source for community-driven development, its more specific objective is to help low-income persons integrate social and economic life and to have a more secure source of income, through locally developed projects aided by NGOs and targeting the poorest. BTS has promoted the creation of these 128 NGOs, is financing them, and contributing to the training and remuneration of their managers. Many of them are committed to participative sustainable local

development. The ceiling for these micro-credits is 4,000 Tunisian Dinars (TND), i.e. slightly above US\$ 3,000; and the average has been 756 TND. The interest rate is at 5% i.e. highly subsidized, since the market rate is close to 9%. As of April 2005, about 116,378 projects benefited and mobilized 88 million TND. One third of the beneficiaries are women. This helped create 100,000 jobs (while the number of the unemployed in Tunisia is about 500,000). The impact, effectiveness and sustainability of this type of local development activities are yet to be assessed. These micro credits seem rather costly, but they certainly helped a large number of needy people. It remains to be determined how many of them were permanently pulled out of poverty.

### **II. 3. Role of NEPAD and APRM**

The priorities of NEPAD i.e. economic cooperation, debt relief, health, education, infrastructure, democracy, good governance, human resource development, women empowerment.... all directly impact development and poverty alleviation. Egypt, Morocco and Tunisia, like all other African states, would benefit from Africa's unified vision in dealing with the development partner countries. The envisaged activation of international trade is of significant importance to all, vis-à-vis growth and poverty alleviation. The Nile Basin initiative closely relates to the agriculture and irrigation sectors, which are essential areas of concern for most African countries. Agricultural research aiming to productivity enhancement directly impacts poverty, and constitutes an important area for cooperation between African countries. APRM is associated with transparency and accountability considerations, which are also important measures for poverty alleviation.

### **III. Institutional and Capacity Aspects for Poverty Reduction**

**III.a For Egypt**, this section will address:

- (1) capacity aspects and decentralization,
- (2) education, training, and capacity building for productivity enhancement,
- (3) capacity aspects under MISR program and (4) under SFD, and,
- (5) monitoring and evaluation.

**(1) According to Egypt Human Development Report (EHDR) of 2004, Egypt has a highly centralized system of governance,** and performance of local administration is characterized by complicated procedures, contradicting missions, and most importantly, low level of staff efficiency. While decentralization has the benefits of better access by the poor to basic services, better quality of services, and better cost-effectiveness due to proximity to local needs, a centralized system that has been in place for decades has negatively impacted several sectors as follows:

--The crowded functions of the Ministry of Health and the Health Insurance Organization (including service delivery) led to inadequate quality of service and little time for policy making and strategic planning. Also local governments are not able to recruit qualified health personnel as the mid-level management positions are filled from the central government.

--Returns to education have been modest, due to a number of factors including inadequate teacher skill and remuneration.

--By law, the General Organization of Physical Planning is to prepare master plans only, leaving to local governments the preparation and implementation of detailed plans. But the whole task is done by GOPP (and consultants) due to capacity constraints at local level.

Shifting authorities to local governments would promote citizen voice at grassroots, and promote resource mobilization. The mobilization of local financial resources, in turn enables local governments to retain qualified providers of services.

**Along with decentralization, two major pre-requisites are capacity building and a strong system of monitoring and control.** Lower administrative levels frequently lack the necessary capacities to perform new functions, but experience suggests that capacity building should ideally start in parallel with decentralization. Service delivery should eventually be left to local administration, while setting the standards and regulations should be the authority of the center. Capacity enhancement also includes better MIS at local levels and data communication and availability.

**Capacity building associated with administrative and fiscal decentralization, would contribute to alleviating a number of drawbacks in basic sectors:**

--Frequent absenteeism among doctors hired from the capital and from cities and posted in rural/remote areas, could be reduced by enhancing the capacity of local doctors, as well as providing incentives for service in rural/remote areas.

--Schools' retaining part of tuition fees could be used for better teachers' remuneration.

--The provision of advanced credit-training to loan officers at lowest levels of a micro-finance institution (e.g. 'village banks' in PBDAC), helps them increase their portfolio by disbursing loans to diversified non-traditional activities (i.e. non-livestock loans). The institution's Internal Control Unit should simultaneously be strengthened both quantitatively and qualitatively to minimize non-viable and non-genuine loans.

**(2) As regards education and training**, both the World Bank's PRS of 2004, and the PRAP of 2005, referred to in Section I, have 'education' as a major component. The Education Enhancement Program (aiming to increase access to basic education, with focus on girls and on Upper Egypt, and improving the quality of education and enhancing the effectiveness of the system) is described by the World Bank as a successful experience. The PRAP also has a component on vocational training, with both a policy-element and a program-element.

**Capacity building for productivity enhancement and improved services is addressed by the PRAP in various components as follows:**

--The Social Safety Nets component proposes a) upgrading the Ministry of Social Affairs' field officers/ social workers who identify poor households for targeting social assistance, through better training and better remuneration, b) the creation of 'labor restructuring committees' for re-habilitation of workers who are unemployed due to enterprise shutdown.

--The SME component proposes a) the expansion in training, and better incentive payments, for agricultural extension agents, which leads to increase in crop and livestock productivity, b) capacity building for micro-credit NGOs, so as to apply internationally acceptable reporting methods, that would qualify the NGO to borrow from local and foreign finance institutions (other than fully secured borrowing).

--The 'Slum upgrading' component proposes a participatory approach that involves a great deal of capacity building for planning and budgeting at local levels.

**(3) MISR local development program** has a strong component for capacity building and institutional strengthening. The program's first phase covers 10 villages selected by the ten *markazes* that have lowest HDIs, out of a targeted total of 58 villages/or districts to be covered by the program. 'Participatory village Development Plans' are developed by local administrative units, local popular councils, and the public community. Priority needs are discussed and projects' costs are estimated at the local level. There is a 'special development plan' to determine land use by the village future growth i.e. the vacant land available for investment. Then in order to obtain funds, each community has to present revenue-generating projects where the community is contributing. **The program lasts till 2010 only, so the aim is to institute local government autonomy and the capacity to prioritize and rationalize.** Service delivery is the incentive used to stir local governance and to institutionalize local development. 'Strategic vision' training is given to 'mother villages' to transfer it, in turn, to subsidiary villages. The program will not hire consultants to deliver the training; rather, a Unit of Local government will be formed

of government staff at governorate level seconded on full-time basis, and will obtain 'Training of Trainers'. The Unit will be attached to the General Secretary Office. Then the lower levels (markaz) are to establish similar units (e.g. from services directorates staff). The Unit obtains training in accounting, planning and budgeting, strategic vision, negotiation skills, monitoring and evaluation (M&E), baseline indicators, etc, then transfers this knowledge to the Heads of popular councils, the Village Head, the community, etc. Benchmarking indicators will be established. A reputable Accounting and Audit firm in Egypt will install the accounting system at the local level (markaz). Also to be set up is a 'Special Audit Program to Assess Quality as Perceived by the Community'. The General Federation of NGOs will select the NGOs and Community Development associations (CDAs) for M&E of the program and other existing local and rural development programs. Numerous NGOs have been lately strengthened by various donor agencies in various fields.

**(4) Institutional and Capacity Aspects under the SFD:** Project Implementation Units established in each governorate for SFD's programs, formed of specialists selected at governorate level, obtains SFD training in areas of management, financial and technical aspects, follow-up and reporting. They are audited by SFD, an external audit firm, and the Central Audit Agency. Funds are allocated to each governorate in light of 'access to service' indicators. The governorate and its local popular councils determine priority projects. As most SFD programs are implemented through NGOs, SFD undertakes capacity building of 'mother or umbrella' NGOs, to transfer, in turn, to other NGOs. This is mainly in areas of literacy, health awareness, micro-credit.

The Multi-Donor Review Mission (MDRM) referred to the positive impact of SFD operations as noted earlier, **but pointed to some areas where more institutional strengthening and/or human capacity building activities are needed, as follows:**

- The intermediaries (i.e. NGOs) did not train the loan beneficiaries (microenterprises) on the loan product specifications. Also non-financial services were inadequate, especially training in business skills. Vocational training did not help the graduates actually get jobs related to the received training; most training was not based on up-to-date standards and not linked to the needs of local labor market.
- Intermediaries' staff (NGO and bank staff) is busy with administrative requirements regarding loan disbursement and delivery-targets, while they are less concerned with concepts of poverty reduction and job creation.
- MIS was being set up and should lead to more precise collection of data and transparency, that will help SFD react to any negative trends.

**(5) As regards Monitoring and Evaluation of PRS, The World Bank's PRS (2004)** recommended that:

- a) The quality of micro-surveys should be improved through enhanced design and implementation; compensations to surveyors and other personnel could be reviewed,
- b) Household and labor force surveys should be conducted annually; the feasibility of smaller samples to be investigated,
- c) A small annual survey on a panel basis to be initiated for better information on poverty dynamics,
- d) All publicly collected data should be made available to the public,
- e) Anti-poverty program budgets should allow for baseline surveys and mid-term analysis.

The PRAP of 2005 proposed that a 'Poverty Monitoring Unit' be set-up and anchored in an agreed-upon governmental authority for monitoring developments in poverty conditions in Egypt based on CAPMAS<sup>14</sup> data and surveys, particularly:

- Updating poverty data on poverty incidence, geographical distribution, characteristics of the poor as regards gender, education, location, and economic activity.
- Measuring and evaluating the efficiency of different poverty-alleviating programs.
- Reviewing anti-poverty policies, plans and programs in light of achievements.

As regards SFD, MDRM report noted that a poverty monitoring system is being discussed for setting up with World Bank's assistance; it should be able to provide more impact information. The report recommends establishing baselines, benchmarks and longitudinal studies by this monitoring system, and recommends using more precise indicators in measuring employment i.e. length of employment, quality and remuneration.

**III.b In Morocco, the government launched a campaign against tax evasion and in favor of more transparency in public finance management, and trade courts were instituted** for a rapid settling of business disputes. Many other reforms have already been implemented, which made the public administration more participative and more sensitive to social needs. But much remains to be done in the modernization of public administration. **The restructuring of administrative bodies to improve the quality of services, and the restructuring and strengthening of the education and health services are among the most important institutional reforms being achieved and relevant for poverty alleviation.**

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<sup>14</sup> The Central Agency for Public Mobilization and Statistics

The government also achieved **significant progress in making the judiciary more transparent and more efficient and modernizing the government administration.** The enhancement of human rights and the greater freedom of expression have also made it easier to address poverty issues and disseminate more information about poverty and about the unequal distribution of wealth between regions and social groups. On the other hand, it seems that **participation of the targeted population, at least partially, to the conception or implementation of certain programs remains below the minimum expectations.** To assure bigger success for the poverty fighting strategies, these must be conceived on the basis of priority needs of target population, which are not homogenous e.g. major preoccupations of the rural populations, who are the poorest, are naturally more basic than poor urban households.

**The decentralization** and de-concentration process was strengthened by devolving additional responsibilities and resources to local communities for all services, particularly local development actions targeting the poor. This will allow for more capacity building for the poor and the disadvantaged. More and more, the undertaking and management of services and socio-economic instruments is attributed to the local authority closest to the beneficiary population. This process is ongoing, and generated a transfer of resources to local communities and governments. Popular participation in the development process is often stimulated. Decentralization was accompanied by capacity building actions, especially in terms of training. However, it is only the beginning of the process: most of the power and the resources are still managed by the central government. There is also a great need to redistribute power between the various local and central bodies, and in order to make the whole institutional set up more pro-poor. There is also a fear that locally elected representatives will use whatever power devolved to them to gain political support for themselves and less to achieve the development objectives planned in favor of the needy.

**The overall picture of the country in terms of governance has been rather fuzzy.** After a significant improvement between 1996 and 2000, the indicators show that the quality of the country governance deteriorated. This is not the final word and the numbers for 2004 may well show the opposite. It is reasonable to conjecture that because democratic transition, in general, does not follow a linear and guaranteed process, and because it requires more discipline and consensus building, the

adjustment has not been fully adequate. In particular, the new government has to take actions in order to fulfill some electoral promises and has avoided making unpopular ones because it strongly needs popular legitimacy. The transition process may also have been generating new forms of opportunism. Although, as in the following table, the public accountability indicator shows a steady improvement, the rest of the indicators indicate the governance is not evolving in the desirable direction, and the overall average indicator fell from 0.15 in 2000 to minus 0.04 in 2002.

Table 13: Governance Indicators in Morocco

Governance indicator	Year			
	1996	1998	2000	2002
Voice and public accountability	-0.6	-0.53	-0.44	-0.3
Political stability	-0.36	0.13	0.13	-0.14
Government effectiveness	-0.10	0.29	0.08	0.07
Regulatory quality	0.27	0.25	0.42	0.02
Rule of law	0.18	0.54	0.33	0.11
Fighting corruption	0.21	-0.10	0.36	-0.04
<b>Global indicator</b>	<b>-0.07</b>	<b>0.10</b>	<b>0.15</b>	<b>-0.05</b>

<sup>1</sup> The range for all these indicators is (-2.5 to +2.5)

Morocco follows to a large extent the French model which relies on large public enterprises and public monopolies for the provision of local services and on national projects (and public-private sector partnerships). There are three levels of government: central, regional and the local governments. The latter mainly constitute of municipal governments (communes). So far, the decentralization process focused more on empowering the regional government and the regional departments of the national agencies.

**III.c As regards Tunisia**, the main issues addressed in this section are:

- (1) Governance,
- (2) Institutional strengthening and capacity building, and,
- (3) Decentralization.

**(1) Governance and the quality of the business climate** determine investment, growth and employment generation, hence are essential for reductions in poverty and improvements in the provision of public services. This issue is obviously linked to the openness of the government system and to the need to enhance participative and more decentralized and pluralist decision processes. All the reports on governance assert that the situation in Tunisia is satisfactory in terms of political and economic stability

and in terms of public service management, but that its indicators as regards public accountability, freedom of expression and of the press are weak. In particular, the judiciary is not perceived as being reassuring and independent enough. This situation evidently impacts on the business climate. More transparent and more contestable and equitable economic and corporate governance rules are needed. The national economic and social development plan (tenth five year plan for 2002-2006) does stress as one of its key strategic objectives the improvement of the social indicators with a higher participation of all the social categories to the benefits of economic development. There is a lot to be done, especially in terms of participation. While many initiatives and efforts to promote good governance have taken place at the national level (i.e. civil service reform, judiciary and parliament reforms), governance is a problem at the central and local levels. Higher participation is particularly needed at the local level, where basic and important services are to be provided.

**More attention is to be paid to the judiciary institutions** since an independent and competent judiciary is an essential element of any successful governance and anti-corruption strategy -a basic requirement for poverty reduction. The objective of the legal and judicial ongoing reforms program in Tunisia is to contribute to a more impartial, independent, accountable, and effective judiciary, and to combat corruption.

The government has launched a large number of institutional reforms aiming improve the quality of governance; a lot has been achieved but in many aspects this process has been rather slow. Yet, there is a consensus that governance and that the quality of the main institutions is crucial for achieving the strategic development objectives. Tables 14 and 15 give a summary of main indicators of governance.

Table 14: Governance Indicators in Tunisia

Governance Indicator	1996			1998			2000			2002		
	Level	ES*	N*	E	ES	N	E	ES	N	E	ES	N
Freedom of press and public accountability	-0.50	0.21	4	-0.92	0.23	4	-0.71	0.23	5	-0.83	0.17	8
Political stability	0.28	0.34	4	0.61	0.27	5	0.86	0.27	6	0.24	0.22	7
Government efficiency	0.39	0.24	4	0.85	0.21	6	1.32	0.21	6	0.65	0.16	7
Regulation quality	-0.01	0.27	5	0.5	0.26	5	-0.65	0.31	5	-0.02	0.18	7
Rule of law	0.06	0.18	6	0.44	0.21	8	0.48	0.18	8	0.27	0.14	10
Fighting corruption	-0.04	0.24	4	0.11	0.18	6	0.7	0.19	6	0.35	0.16	8
Global indicator:	<b>0.03</b>			<b>0.26</b>			<b>0.33</b>			<b>0.11</b>		

<sup>1</sup> The range for all these indicators is (-2.5 to +2.5)

SE: standard error; N: number of sources

Using Table 14, an ‘institutional gap’ is defined for each indicator as the difference between the Tunisian average level over the reported years and a sample of OECD countries, and a group of Mediterranean region countries, as shown in Table 15.

Table 15: The Institutional Gap in Tunisia

Governance indicator	OECD countries				Mediterranean countries			
	1996	1998	2000	2002	1996	1998	2000	2002
Freedom of the press and public accountability	1.43	1.35	1.35	1.44	-0.71	-0.87	-0.76	-0.77
Political stability	1.08	1.28	1.31	1.16	-0.60	-0.52	-0.42	-0.55
Government efficiency	1.47	1.78	1.66	1.70	-0.26	-0.22	-0.14	-0.26
Regulation quality	1.19	1.22	1.29	1.54	-0.35	-0.19	-0.14	-0.44
Rule of law	1.68	1.79	1.79	1.66	-0.18	0.02	-0.05	-0.16
Fighting corruption	1.58	2.03	1.86	1.77	-0.20	-0.30	-0.32	-0.30
<b>Global indicator (average of the above indicators)</b>	<b>1.41</b>	<b>1.58</b>	<b>1.54</b>	<b>1.55</b>	<b>-0.38</b>	<b>-0.35</b>	<b>-0.30</b>	<b>-0.41</b>
<b>Institutional gap</b>	<b>-1.38</b>	<b>-1.31</b>	<b>-1.20</b>	<b>-1.44</b>	<b>0.41</b>	<b>0.61</b>	<b>0.85</b>	<b>0.52</b>

The first table indicates that in average governance has rather improved in Tunisia as it increased from 0.03 in 1996 to 0.11 in 2002, but it was better in 2000. These values are however much lower than those of OECD countries (1.55 in 2002) as indicated in the second table i.e. Tunisia has a long way to go to reach the high governance level it should aim for to achieve its development goals. The lowest performance corresponds to the government accountability and the freedom of the press indicators, while the highest performance is in government efficiency in providing public services (1.32 in 2000 and 0.65 in 2002, which is remarkable in developing countries standards).

Tunisia fares relatively well if compared to its Mediterranean neighbors: their average is lower than Tunisia’s. The Tunisian case is also special because this institutional gap did not lead to low macroeconomic performances, neither did it generate low social standards and services. The concentration of power at the central level and within the ruling party has been there since the early days following the independence of Tunisia in 1956, and the feeling that it is very hard to dislodge is very strong among the common Tunisian. It is partly so because, in a way, it is compensated by a set of policies favoring the average Tunisian and also the poor and the more vulnerable.

**(2) Institutional strengthening and capacity building** are fundamental in this context, also noting that ownership cannot be asserted without the right institutions and the required capacities. Several reforms have been conducted in order to fill the

institutional gap. **Restructuring the public administration** has been one of the main components of such reforms. It has involved capacity building and modernizing the administrative processes, decentralization and de-concentration of the government system, and restructuring the fiscal administration and the budget institutions. These reforms mainly aim at improving the quality of all the services provided by the central and local governments and hence improve the investment and business environment and facilitate implementation of local development projects. Basic guiding principles for the reforms were enhancing transparency and participative decision-making, and simplifying the functioning of the administrative system and modernizing it. A lot of progress has indeed been achieved, especially in terms of training and acquiring new technology tools and other forms of capacity building. Many administrative departments and government agencies have been quite successful in simplifying their procedures and facilitating access to their services to their beneficiaries (postal services, transportation, telecommunications, customs...), including the poor.

**Fiscal reforms were implemented**, and helped with improving municipal financial resources and investments. Reforms also aimed at improving physical and human capacity building in favor of the municipalities. A five-year planning procedure for all municipalities was instituted in 1987 as part of the national planning process leading to the systematic preparation of an investment plan (PIC) for each municipality.

Many of these measures were part of the three **Municipal Development Projects (PDM)**, the third of which (2003-2007) being still ongoing. The **PDM** overall objective is to improve the performance of the local government system through a set of institutional and capacity building actions and the enhancement of their sustainable financial resources. Restructuring and strengthening CPSCL<sup>15</sup> (the local development financial institution) and CEFAD<sup>16</sup> (the training center) are the two major actions included in the PDM. Major improvements involving the quality of the services provided by the local governments were achieved as a result of these reforms and projects, but the system has not significantly gained in terms of decentralization.

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<sup>15</sup> CPSCL: Caisse de Prêt et de Soutien aux Collectivités Locales

<sup>16</sup> CEFAD : Centre de Formation et d'Appui à la Décentralisation

**(3) As to Decentralization,** local development projects have been driven more from the central government than locally. The institutions created to monitor and administer them are mainly central government agencies, while the quality and the performance of such projects could be enhanced through a higher participation of the local population to their design and control. **The plans mainly involve, at the design and the implementation stages, the central government agencies, rather than being the outcome of a massive participatory process.** The central executive government remains very strong and continues to dominate all the other levels of government and the other branches of the state, including the legislative.

The decentralization process has been slower than other reforms, and has involved more de-concentration than real decentralization i.e. more power and responsibilities are transferred to the regional representative of the central government while little change has occurred with respect to the power of the local governments. Basically, little has been achieved to ensure a real democratic transition, and to make popular participation and public accountability an established fact.

But while the government system remains very centralized, and local governments are not yet fully the expression of authentic local popular participation and concerns, these local institutions have undergone important reforms and managed to improve the quality and the sustainability of the services they offer. There is also a wealth of projects and programs in Tunisia for the development of local services, including a large number of pro-poor projects; but most of these projects are conducted by central government agencies. Similar to Morocco, Tunisia a) follows to a large extent the French model, which relies on large public enterprises and public monopolies for the provision of local services, and on national projects, as well as public-private sector partnerships, and b) has three levels of government: central, regional and local governments, with the latter mainly constituted of municipal governments (communes). The decentralization process focused so far on empowering the regional government and the regional departments of the national agencies.

Communes are the most important form of Local governments; but only a small part of the essential public services are supplied by the municipal government in Tunisia.

Central government, through specialized agencies and public enterprises or de-concentrated ministerial departments, and other public institutions are the main providers of water, sanitation, electrical power, education, health...In all these areas, communes have little or no activities or are minor decision makers. Moreover, communes are closely controlled and supervised by the regional and central government authorities. This has been a major constant of the Tunisian system in spite of many reforms and the three municipal development projects that have been undertaken in order to empower and strengthen the local governments.

Human development was a priority at national level, but was not perceived as local government responsibility. It is obvious that the central government preferred to monopolize the political legitimacy generated by the implementation of local development programs it had been able to design, and it was assuming that communes did not have the management capacities to conduct these programs efficiently.

Given the local development challenges, the Tunisian government developed a set of instruments and institutions specializing in the provision of specific services, some of which mainly targeting the poor. These institutions were kept under central government control and given substantial financial and human resources. Thus, they have been able to implement significant development projects. For instance, water and sanitation services are supplied almost exclusively by national public enterprises.

Rural areas benefit from specific pro-poor development projects. Several generations of rural development projects were implemented. Typically, their targeted population would be a locality, and the project would include infrastructure, training and capacity building; and it requires the active participation of the population during the investment and the production phases of the project. A complex set of institutions have been involved in the design and the implementation of these projects under the coordination of one central agency, CGDR<sup>17</sup>.

Similarly, integrated urban development projects targeting poor urban localities were more recently set up under the central government initiative, and following similar

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<sup>17</sup> CGDR : Commissariat Général de Développement Régional

procedures, involving CGDR, the regional governments and ARRU. These projects come also as an improvement of the previously existing and still ongoing basic urban infrastructure projects for the poor. Altogether, Tunisia has a rich and complex system of institutions and projects acting in the field of local development even though they do not fall under the local government authority. Their impact was certainly very significant. **Reforms of local governments legislation**, passed first in 1975 and later in 1997, did not widen the area of activities of the municipalities, they only and successfully aimed at improving their governance.

#### **IV. Aid Effectiveness and Management for Poverty Reduction**

**IV.a In Egypt**, international Official Development Assistance (ODA) decreased in recent years due to changes in the international political arena that affected foreign aid used as a political tool, growing fiscal pressures on many donor countries' budgets, and increased private capital flows (replacing aid flows) to developing countries; the latter went along with macroeconomic and structural reforms in developing countries, and foreign investors' interest in portfolio diversification. **International cooperation strategy** for Egypt is articulated by the Minister of International Cooperation in consultation with the Cabinet of Ministers; a clear vision of Egypt's needs and priorities is delivered to the partners. There are intensive consultations with partners, translated into agreements specifying the type and magnitude of assistance, and the projects to be funded under these agreements. This consultative process is essential to formulation of the strategy; the strategy has to be flexible because local priorities can change, also different donors have different priorities.

The Paris Declaration on Aid Effectiveness of March 2005 (in which Egypt was a participating country) established that developing countries have to make use of the comparative advantage of donors in terms of the areas in which the donor can maximize impact (rather than dollar value of the assistance) i.e. areas where they have proven a track record. The process might involve difficulties but the relationship is one that involves persuasion on both sides (rather than dictating) and communication/clarification of rationales, noting that the donors too are keen to see genuine results.

There is a limit on external borrowing due to the debt-service burden. Egypt reduced its external debt to GDP ratio from 130% to 30% in 1989-2000: to maintain this performance, the government required then that external debt does not increase in nominal terms and that public foreign borrowing should have at least a 40% grant element. Preference is for grants, then soft loans, then commercial loans (Egypt had a US\$ 1.5 billion Eurobond in international markets in 2001). A number of debt-swaps have taken place, with Italy, Switzerland, France, etc. Part of the debt is exempted in return for launching local development projects. This also has, from Egypt's perspective, the benefit of debt-repayment in local currency.

**As regards aid alignment to PRS,** Egypt represents a good case of a middle-income emerging economy that received large volume of aid and technical cooperation (TC) during the nineties, mostly in the form of 'program approach' which gives more flexibility in fund-using in priority-areas under the Economic Reform and Structural Adjustment Program (ERSAP) like policy formulation, social development and poverty alleviation (as compared to the 'project approach' applied in the eighties when heavy support went to infrastructure projects). For many years, donors have been shifting priorities to poverty issues. MDGs have placed poverty as number one priority. International cooperation in Egypt is working in this framework; donors were guided by Egypt's revised priorities in response to its needs; thus each donor has one or more program, or program component, focusing on poverty alleviation.

The fact that international cooperation has been assigned to a separate ministry like in the past, as opposed to a sector of the Ministry of Foreign Affairs, is a right step. The Ministry of International Cooperation (MIC) plays a vital role in putting forward proposals to the international lending institutions, selecting the projects to be financed from abroad, forming the bilateral and multilateral agreements and following up on their implementation. Recent controls have been put in place in a way that aid directed to any governorate is to be through MIC; also assistance to NGOs is through MIC not only the Ministry of Social Affairs that supervises NGOs.

As regards bilateral aid, ODA has played a vital role in Egypt's development efforts, notwithstanding the decreasing trend reflected in Table 16.

Table 16: ODA and TC Received by Egypt during the Nineties\*

	1993	1995	1997	1999
ODA in US \$ million	2,401	2,014	1,981	1,579
ODA per capita US \$	43.0	34.6	32.6	24.9
ODA / GDP %	5.1	3.3	2.6	1.8
ODA / Gov. Budget %	17.3	12.3	10.4	7.3
ODA / Exports of goods & services %	12.4	11.3	10.2	8.4
TC in US \$ million	975	744	570	768
TC / ODA %	40.6	36.9	28.8	48.6
TC / GDP %	2.1	1.2	0.8	0.9
TC / Budget revenue %	7.0	4.5	3.0	3.6

\* The years 1990-1992 had exceptionally high ODA due to compensations obtained during the Gulf war, thus not indicated in the table.

Data for period 1991-2003 indicate that about US\$ 13 billion were received by Egypt in the form of grants; where USA, Japan, the EU, Abu Dhabi Development Fund and others had shares of 62%, 13%, 9.2%, 4.4% and 11% respectively. USA's aid has been subject to an annual 5% decrease due for the period 1998-2007; (lately, the trend has been for foreign and domestic investment to replace the role of US aid inflows to Egypt). In the seventies, USA's assistance was aimed at infrastructure improvement (power, water, sanitary facilities, telecommunications); then in the eighties more focus was on the shift to a market-oriented economy, and addressing problems of market entry, unemployment, access to credit and the importation of US equipment and materials; then the focus in the nineties was on privatizing state-owned enterprises, promotion of Egyptian exports, and improvements in civil courts, health and education services, training, local development, population and environmental issues. EU assistance is mostly directed to industrial modernization, SMEs, poverty alleviation, employment generation, gender issues, and capacity building: projects included water supply and sanitation, energy, the SFD, technical education and vocational training and health sector reform. As to Japan, the most significant finance was that of the first bridge spanning the Suez Canal, and soft lending for areas of environment, technology, human development, and SMEs.

TC to Egypt was not mainly donor-driven; effective initiatives were undertaken by GOE such as the creation of SFD and the Credit Guarantee Corporation. Significant aid was directed to SFD, but studies refer to the need for improving SFD's poverty-orientation, across income groups and across geographical areas. Multilateral aid of

US\$ 9.5 billion was received in 1970-2000, of which 86% in the form of loans. Social services and agricultural sectors constituted 24% and 30% respectively.

In 2001, data indicate that ODA amounted to US\$ 1.6 billion, or US\$ 24 per capita; USA's share was 48%; allocations to basic education, health, water, sanitation and emergency food constituted 18% and agriculture 18%. ODA disbursements in 2001 and 2002 are perceived to conform with national priorities and objectives in varying degrees: high conformance in private sector development, but low in job creation.

On the issue of **aid harmonization with national processes**, it is noted that policy support aid is nowadays in the form of budget support. About 40% of EU's aid in the economic portfolio is budget support: rather than intervening in specific projects, it is simpler for EU to help Egypt build its capacities, aiming to have Egypt achieve self-reliance in technical aspects, thus strengthening the element of ownership of development policies and projects. While shifting towards budget support is advantageous in the sense that it gives complete authority to the recipient country to rely on its own planning and expertise, the importance of and the benefit that Egypt has received out of technical assistance (TA) cannot be undermined. The TA component of aid has the effect of transferring expertise to the host country, training the human resources and creating institutions. TA in Egypt has contributed to the areas of health, Information Technology (IT), education and micro-credit. For example, the expertise of how to run a micro-credit agency has been institutionalized in Egypt as a result of donor projects in this area. Another success story is the Mubarak-Kohl project which established an institutional framework in the field of training and skill-enhancement, through practical training of technical school students in private sector factories during their school years.

There have been cases however where parallel systems were created at undesirably high cost that does not help strengthen local institutions: e.g. some training courses for managers were too extravagant.

**On donor coordination**, the Development Assistance Committee (DAC), established in 1960, today has an important role in activating dialogue between donors. Most DAC members have established the need to give poverty reduction a priority in their

programs. Also the Donor Assistance Group (DAG) of bilateral and multilateral donors (excluding Arab countries) was formed in the mid-1990s and meets monthly in Cairo. DAG has been successful in inducing Egypt to give more attention to its social development agenda and to accelerate institutional reforms. MIC now tries to activate the relationship between the government and DAG through increasing the frequency of meetings. The World Bank also contributes to the coordination between Egypt and its development partners by holding the 'Consultative Group' meetings that take place every three years. Finally, the UNDP Cairo Office also has a coordination role in this dialogue between Egypt and the donor community. Intensifying healthy dialogue between donors at the bilateral and multilateral levels provides a channel through which donors can agree on commiserating and complementing their programs, and work on resolving the constraints they encounter.

Various **problems can arise in dealing with donors** as reported by studies based on interviews with people working with Egyptian ministries and institutions that deal with donors, e.g.: a) conflicting requirements of more than one donor financing same project (as indicated below under 'donor accountability'), b) sudden change in donor policies, procedures or staff, c) complexity of withdrawing procedures, and, d) deficiency or lack of domestic financing if needed when foreign financing does not cover all needs. Recommendations include: speeding up the process through which borrowers benefit from the available funds, b) cooperating with the funding organizations to prepare a guidebook for rules and procedures, and c) accelerating the procedures for announcing the expiration of loan agreements so as to prevent further expenses that occur prior to withdrawing.

**As regards aid predictability**, it has not constituted a big challenge to Egypt as cuts occurred in minor incidents only i.e. few cases of unmet commitments under a project, where the Egyptian side did not take enough remedial action, have led the donors to terminate or reduce the allocated funds.

As to **aid conditionality**, Paris Declaration of Aid Effectiveness stressed the need for donors to make progress in untying aid as this greatly improves country ownership and alignment. Most bilateral donors are shifting towards untied aid. (But USA and Japan in particular have been increasing their tied aid; for example US food aid in the

last decade was tied to importing food from the USA). Recommendations or conditionality from the donor side on political and social reform, being essential complements of economic reform, are taken upon as long as they are beneficial to Egypt's development, and especially if based on the donor's successful experience in other countries. Unilateral types of conditions that take the form of political pressure are not acceptable. On the other hand, some conditions come as part of an agreement e.g. a policy support program in which the donor gradually disburses the fund in tranches according to measures taken by the Egyptian side; some conditionalities can improve aid effectiveness because they are performance-related. Also cost-sharing is an acceptable form of development cooperation (e.g. like in the education sector) as it reflects Egypt's commitment to and ownership of the reform. The dialogue between Egypt and its development partners works to make conditionality a framework of understanding between Egypt and the donor who has shown interest and commitment by offering a fund contribution.

**On the issue of donor accountability**, the Paris Declaration addressed the issue of mutual accountability of the donors to their home governments and parliaments as well as to governments of the recipient countries. Donor countries are urged to:

- a) Pursue priorities compatible with those of the host country.
- b) Exert more effort to coordinate among themselves to avoid duplication of efforts, e.g. in terms of geographical focus (to which DAG is actually receptive).
- c) Minimize procedural requirements that raise transaction costs: this has started to be done through standardizing the formats in which the GOE reports on the impact of the assistance, and through coordinating the timings of the missions that come to Egypt to evaluate the performance of the donor-sponsored projects and programs. (NB. For example, SFD found it quite complex to deal with different procurement procedures of different donors; it was simpler in the past when all SFD's donor-dealings were through the World Bank.
- d) Be transparent through disseminations as well as transparent in terms of critique, and any shifts of focus of development priorities,
- e) to have reasonable level of continuity and predictability of future aid, as a sort of moral commitment, in a way to help GOE in its planning activities.

**IV.b In Morocco**, the share of aid and external public loans in total investment has declined. In particular, the government is borrowing more in the domestic financial market than abroad. Yet international financial institutions remain quite influential and provide financial resources for essential projects; they also use their funds as an incentive to speed some difficult reforms.

**As regards aid alignment with PRS**, the main aid components are articulated within strategic plans that are often prepared right before the national development plans, to allow for their integration and harmonization with the national strategy. Morocco is considered by international donors to be a reliable borrower that is not risky; such that Country Assistance Strategies are adopted on a regular basis for Morocco by the World Bank, and similar documents by the African Development Bank.

The Ministry of the Economy, Finance and Tourism is in charge of relations with the leading donors and is responsible for mobilizing external resources for public investments. In the past few years, in line with the active management of its external debt, the government of Morocco has succeeded in alleviating their debt service and in mobilizing large amounts of external resources that they have mainly used for the financing of basic infrastructure in rural and urban areas (sanitation, education, the environment, agriculture, health, justice...) and for institutional reforms.

On the issue of coordination among donors, coordination between the UN agencies, the EU and the African Development Bank is leading to more coherent aid processes. For instance, the Country Strategy Paper (CSP) approved by the African Development Bank for the Kingdom of Morocco for the period 2003-2005 “aimed at helping the country to achieve high and sustainable growth that could generate employment through support to: (i) macroeconomic and sectoral reforms, including improved public services and support to good governance; (ii) strengthening and modernization of infrastructures; and (iii) developing Moroccan enterprises”. It also approved a resource package of about UA360 million per year, for the financing of reform programs and projects in the infrastructure sector.

In the World Bank’s Country Assistance Strategy for Morocco, the “main development challenges can be summarized into four inter-related objectives that cut

across sector issues: achieving higher growth to reduce poverty, improving the access of poor households to social services, enhancing public sector efficiency, and reducing vulnerability, in particular to droughts and, in the medium-term, to environmental degradation”.

The objectives of these two strategic documents are not contradictory: they are similar and/or complementary, and they are consistent with Morocco’s own strategy presented in its five-year national plan. In fact, this is not a coincidence but is the outcome of a coordination and harmonization process.

**The challenge of harmonization is huge given the number of international institutions, partners and donors involved in Morocco’s development planning.**

The World Bank, the European Union and the African Development Bank are the most influential in terms of financial package and technical and policy analysis assistance. UNDP and other UN agencies are present and focus more on poverty reduction. Their approach consists in promoting actions to build up institutional capacities in decentralisation and de-concentration, foster partnership between the administration and civil society and strengthen Information, Education and Communication. Cooperation with the Arab Funds has also increased. On the bilateral level, France and Germany, among other countries offer substantial resources.

The number of partners and the relatively high amount of resources obtained from all these partners raises issues of:

- a) coordination and harmonization,**
- b) the country’s dependency on aid,**
- c) the impact of aid on the country’s effort in terms of saving, technical progress and investment.**

Progress has been achieved on the basis of the number of co-financed projects and **the use of budget and programmatic funding as new mode of financing.** According to this mode, the funds are transferred to the country’s budget and managed through its own institutions and mechanisms. The donor’s intervention is concentrated on the planning phase and on the monitoring of the project. The use of this mode usually

signals that the donors trust the recipient government, and that the latter may integrate in its budget all the aid and the various projects financed by the various international donors. But the risks are there, and there is still the strong need for harmonization.

**IV.c. In Tunisia,** The share of aid and external public loans in total investment in Tunisia has declined. As in Morocco, the government is borrowing more in the domestic financial markets than abroad. Nevertheless, international financial institutions remain quite influential and provide financial resources for essential projects that would be hard to finance otherwise. They also use their funds as an incentive to speed some difficult reforms.

**As regards alignment of aid to PRS,** main aid components are articulated within strategic plans, which are often prepared right before the national development plans to allow for their integration and harmonization with the national strategy as expressed in these plans. Tunisia is perceived by international donors as a reliable borrower. Country Assistance Strategies are adopted on a regular basis by the World Bank, and similar documents by the African Development Bank (AFDB).

The Ministry of Development and International Cooperation in Tunisia is in charge of relations with the leading donors and is responsible for mobilizing external resources for public investments. As noted earlier, **the objectives of the donors are similar and complementary to those of the country's own strategy as indicated in the national Plan. This is due to coordination and harmonization processes. But just like the case of Morocco, the challenge of harmonization is huge given the number of international institutions, partners and donors involved in Tunisia's development planning.**

The World Bank, the European Union and the African Development Bank are the most influential in terms of financial package and technical and policy analysis assistance. UNDP and other UN agencies are also present and focus more on poverty reduction. Their approach consists in promoting actions to build up institutional capacities in decentralization and de-concentration, foster partnership between the Administration and civil society. Cooperation with the Arab Funds has also greatly developed. On the bilateral level, France and Germany offer substantial resources.

Tunisia is similar to Morocco in a number of respects as follows:

--The number of partners and the relatively high amount of resources obtained from all these partners raises a number of issues: coordination as noted earlier, as well as the country's dependency on aid and the impact of aid on the country's effort in terms of saving, technical progress and investment.

--Also similar to the case of Morocco, progress has been achieved on the basis of the **number of co-financed projects and the use of budget and programmatic funding as new mode of financing**. According to this mode, the funds are transferred to the country's budget and managed through its own institutions and mechanisms. The donor's intervention is concentrated on the planning phase and on the monitoring of the project. Normally, this use of this mode signals that the donors trust the countries' governments and that the latter may integrate in its budget all the aid and the various projects financed by the various international donors. Nevertheless, the risks have not yet disappeared, and the need for harmonization remains strong.

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--Eng. Mahmoud Nour, Advisor and Former Vice Chairman to PBDAC, April 2005.

--Eng. Mohamed Hashem, Director of Social Infrastructure Sector, SFD, April 2005.

--Dr. Omar El Farouq, General Manager, Human Resource and Community Development Group, SFD, April 2005.

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