

# Algeria

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### key figures

- Land area, thousands of km<sup>2</sup> 2 382
- Population, thousands (2002) 31 266
- GDP per capita, \$ (2002) 1 789
- Life expectancy (2000-2005) 69.7
- Illiteracy rate (2002) 31.2



# Algeria

IN LATE 1995, THE GOVERNMENT ADOPTED an adjustment programme to stabilise the economy and restore growth to levels that would reduce soaring unemployment and improve living standards. This policy and especially its component of stabilisation, allowed the country to start the 21st century with better macroeconomic and, to a lesser extent, growth performance than it had shown in the 1980s.

Encouraged by higher oil and gas revenue and net external assets, and anxious to contain social and political pressures, the government sought to improve performance further by launching an Economic Recovery Support Programme (PSRE) for 2001-04, in order to return annual growth to between 5 and 6 per cent and create nearly 850 000 jobs. Results have been

very mixed, its long-term impact on growth and employment is not clear and it may bring uncertainty, especially in matters of internal balance. Growth in 2003 was good (6.4 per cent), thanks to the oil sector, but is expected to fall to 4.1 per cent in 2004 and 4.2 in 2005.

Although still highly dependent on the oil and gas sector, growth since 2002 has also been due to government efforts to boost competition, liberalise foreign trade and payments, step up privatisation and reform taxation, the financial sector and the management of state firms. Progress was often small and slow, but the government clearly wants to improve the business climate and encourage the private sector.

Encouraged by higher oil and gas revenue, the government launched an Economic Recovery Support Programme with mixed results.

Figure 1 - Real GDP Growth



Source: Ministry of Finance data; projections based on authors' calculations.

## Recent Economic Developments

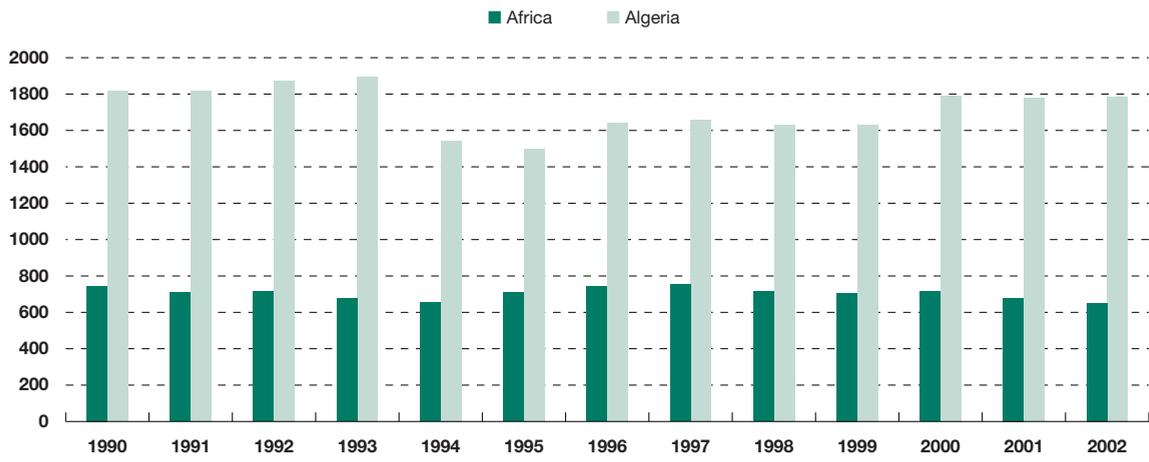
Real GDP (excluding the oil and gas sector) grew 4.2 per cent in 2002, more than predicted, and was expected to speed up in 2003 to about 6.4 per cent (5 per cent excluding oil and gas and agriculture).

Growth in agriculture soared to 16 per cent in 2003 and is expected to be 6.6 per cent in 2004 owing to good weather. After expanding 13.2 per cent in 2001,

the sector had shrunk 1.3 per cent in 2002 as lack of rain reduced the cereals harvest by 24 per cent. This was partly offset by good performance in livestock, which grew once again (5 per cent), and by a modest growth (0.8 per cent) in non-cereals production, thanks to spreading irrigation.

Farming accounts for nearly 11 per cent of GDP and has established itself in recent years. Though it depends on the weather, production is rising with the help of

Figure 2 - GDP Per Capita in Algeria and in Africa (current \$)



Source: IMF.

the National Agriculture Development Plan (PNDA), which is backed by the National Fund for Agricultural Development and Organisation (FNDRA).

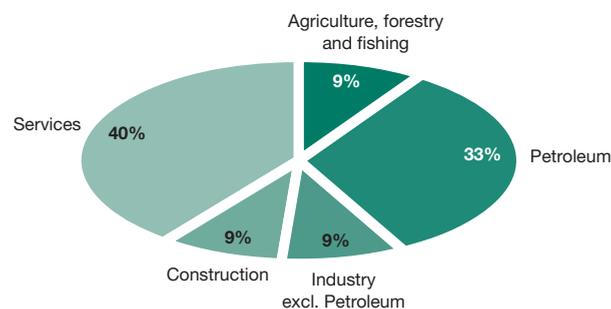
After two years of decline, manufacturing grew 2 per cent in 2001 and 2.9 per cent in 2002, evidence of vigour in the private sector that encouraged the government to speed up structural adjustment, also by defining the roles of the public and private sectors in development. Nevertheless, without energetic reform, manufacturing performance may be hampered by obsolescence, low productivity and the under use of installed capacity in the public sector. Growth in competitive sectors is likely to be curbed by a contraction of the domestic market, owing to the import-liberalisation requirements of Algeria's association agreement with the European Union. Reforms will be needed if manufacturing is to exceed its average 2 per

cent growth of the past three years (1.9 per cent is predicted in 2003 and 2.4 in 2004).

The oil and gas sector grew 6.6 per cent in 2003, improving on the notable 2002 recovery (up 3.7 per cent) which followed the 1.6 per cent fall in 2001. In 2004, it is expected to fall back slightly to 5.2 per cent. In 2002, volume production of crude oil increased a little, as did that of gas, but production of refined items and condensates fell. The sharp fall in the average price for gas products (14.8 per cent for liquefied natural gas and 17.8 per cent for natural gas), which make up nearly two-thirds of the sector's exports, led to a fall in total export revenue of 2.7 per cent in 2002.

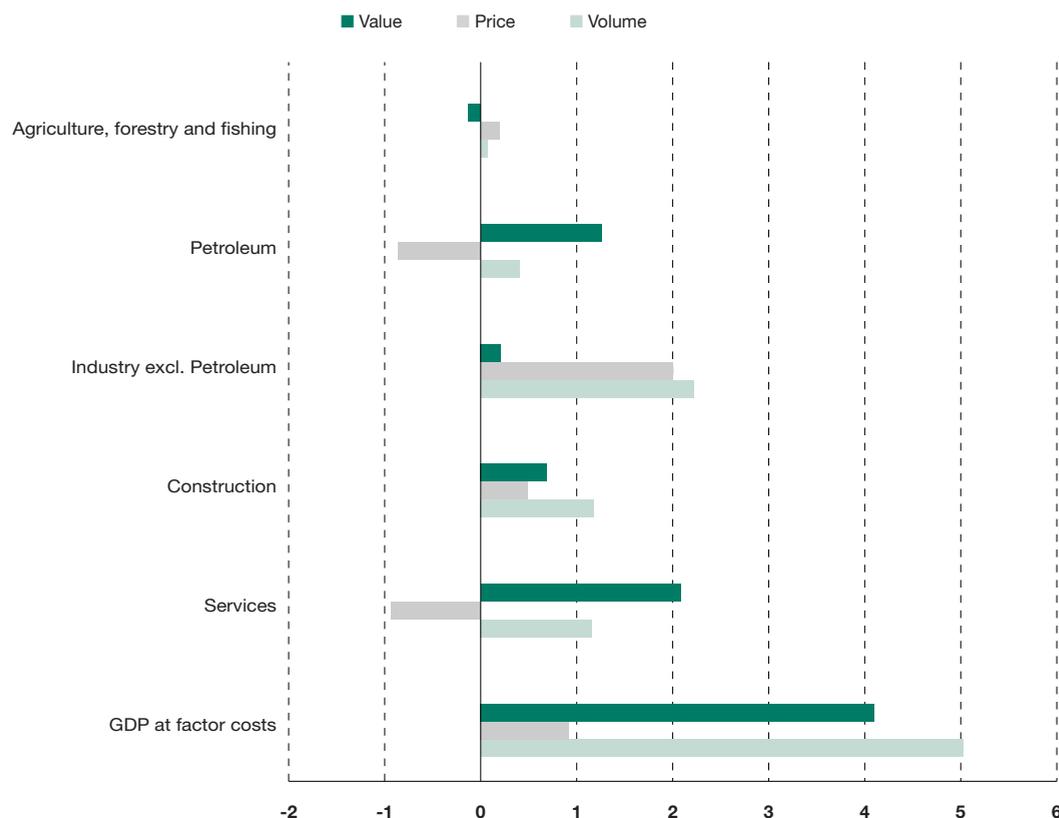
Construction grew 8 per cent in 2002, the most for six years and the best performance of any sector, due

Figure 3 - GDP by Sector in 2002



Source: Authors' estimates based on Ministry of Finance data.

Figure 4 - Sectoral Contribution to GDP Growth in 2002



Source: Authors' estimates based on Ministry of Finance data.

to high government spending, notably on housing, roads and water facilities. This expansion held up in 2003 (7.5 per cent) and should continue in 2004 (7.3 per cent).

The service sector grew a healthy 6.7 per cent in 2003, slightly up on 2002 (5.4 per cent), and is expected to

fall back to 5.4 per cent in 2004. The sector's contribution to GDP has steadily increased since 1995, reaching about 40 per cent since 2001.

This overall progress suggests the economy is speeding up but it is still very dependent on raw materials in the absence of diversification of its productive base. It will

Table 1 - Demand Composition (percentage of GDP)

	1995	2000	2001	2002	2003(e)	2004(p)	2005(p)
<b>Gross capital formation</b>	<b>30.2</b>	<b>22.4</b>	<b>27.1</b>	<b>30.4</b>	<b>33.0</b>	<b>34.4</b>	<b>35.6</b>
Public	7.2	7.2	8.5	10.1	11.8	12.2	12.5
Private	23.0	15.2	18.6	20.3	21.2	22.2	23.2
<b>Final consumption</b>	<b>72.6</b>	<b>55.5</b>	<b>58.3</b>	<b>59.6</b>	<b>57.2</b>	<b>58.8</b>	<b>59.6</b>
Public	17.0	13.7	14.7	15.3	14.7	14.8	14.8
Private	55.6	41.8	43.6	44.2	42.5	43.9	44.8
<b>External sector</b>	<b>-2.8</b>	<b>22.1</b>	<b>14.6</b>	<b>10.0</b>	<b>9.8</b>	<b>6.9</b>	<b>4.8</b>
Exports	26.0	42.3	36.6	35.6	37.8	35.5	34.0
Imports	-28.8	-20.2	-22.0	-25.6	-27.9	-28.6	-29.2

Source: IMF and domestic authorities' data; projections based on authors' calculations.

depend in the short and medium term on the government's recovery support programme.

The share of gross capital formation in GDP has risen sharply since 2000, to reach 33 per cent in 2003 and an expected 34.4 per cent in 2004 and 35.6 in 2005, because of heavy public investment and significantly more private investment. The goods and services export surplus, however, fell by about the same amount as the increase in investment.

## Macroeconomic Policy

### Fiscal and Monetary Policy

One of the most important macroeconomic features of the past three years has been the determination of the government to learn from the past and soften the effect of fluctuating oil prices as much as possible. A special fund has been set up to regulate oil and gas

revenue by collecting all extra-budgetary revenue and using it to make up for budgeted revenue shortfalls and reduce public debt. Institutional capacity has also improved, keeping internal and external macroeconomic balances at acceptable levels as demand supported economic revival.

Taking into account the regulatory fund, budget revenue was 1 602.3 billion dinars (\$20.1 billion) in 2002 – 36 per cent of GDP (35.5 in 2001 and 38.5 in 2000). Expenditure was 1 592.7 billion dinars (\$19.9 billion) – 34.8 per cent of GDP (31.1 in 2001 and 28.8 in 2000). The surplus was 9.6 billion dinars (\$120.4 million) – 1.2 per cent of GDP (4.4 in 2001 and 9.6 in 2000).

Budget revenue increased by more than 2 per cent of GDP in 2003, boosting the surplus to 3.1 per cent. Budget surpluses since 2000 reduced government debt to 54.4 per cent of GDP in 2002 (from 80.6 per cent in 1999, 67.2 in 2000 and 58.9 in 2001).

Table 2 - **Public Finances** (percentage of GDP)

	1995	2000	2001	2002	2003(e)	2004(p)	2005(p)
<b>Total revenue and grants</b>	<b>30.0</b>	<b>38.5</b>	<b>35.5</b>	<b>36.0</b>	<b>37.9</b>	<b>36.2</b>	<b>35.2</b>
Tax revenue	11.3	8.1	9.0	10.4	10.6	10.8	10.9
Oil revenue	18.3	30.0	24.0	23.0	24.8	22.9	21.7
<b>Total expenditure and net lending</b>	<b>31.4</b>	<b>28.8</b>	<b>31.1</b>	<b>34.8</b>	<b>34.8</b>	<b>34.6</b>	<b>34.7</b>
Current expenditure	24.1	20.9	22.9	23.9	22.2	22.1	22.0
<i>Excluding interest</i>	20.9	16.9	19.4	20.9	19.8	19.9	19.9
Wages and salaries	9.4	7.1	7.6	7.8	7.3	7.4	7.4
Interest	3.1	4.0	3.5	3.1	2.5	2.2	2.1
Capital expenditure	7.2	7.9	8.4	10.2	11.9	12.2	12.5
<b>Primary balance</b>	<b>1.7</b>	<b>13.7</b>	<b>7.8</b>	<b>4.2</b>	<b>5.6</b>	<b>3.9</b>	<b>2.5</b>
<b>Overall balance</b>	<b>-1.4</b>	<b>9.7</b>	<b>4.4</b>	<b>1.2</b>	<b>3.1</b>	<b>1.7</b>	<b>0.4</b>

Source: IMF and domestic authorities' data; projections based on authors' calculations.

Revenue (excluding the regulatory fund) increased 13.4 per cent in 2002 to 1 575.8 billion dinars (1 389.7 billion in 2001) because of a 21.8 per cent rise in revenue from sources other than oil and gas, mainly due to changes in taxes concerning foreign trade.

Oil revenue remained steady (the average barrel price rose slightly from \$24.80 in 2001 to \$25.20 in 2002). In 2002 the regulatory fund increased by

26 billion dinars (\$326.2 million), from 115.8 billion (\$1.5 billion) in 2001 (and 453.2 billion, or \$6 billion, in 2000) because oil revenue was higher than expected.

Public finances remain highly dependent on oil and 62.9 per cent of total revenue in 2002 came from oil taxes, 30.1 per cent from other taxes and 7 per cent from non-tax revenue.

Current expenditure was estimated at 63.7 per cent of total spending in 2003, down from 2002 (68.9 per cent) and 2001 (71.5 per cent). Wages and salaries rose 6.9 per cent from 2001 to 2002 to reach 346.2 billion dinars (\$4.3 billion), or 7.8 per cent of GDP, mainly because of pay increases in several sectors of the civil service. Current transfers rose 20.6 per cent from 391.4 billion dinars (\$5 billion) in 2001 to 471.9 billion (\$5.9 billion) in 2002, which was 10.6 per cent of GDP.

In 2002, interest payments on internal and external public debt fell to 137.2 billion dinars (\$1.7 billion or 3.1 per cent of GDP) from 147.5 billion (\$1.9 billion or 3.5 per cent) in 2001, partly because of a significant fall in external debt in recent years, due to a cautious debt policy and major government reimbursements to Algerian banks.

Capital expenditure rose 26.7 per cent in 2002 to 452.9 billion dinars (\$5.6 billion) from 357.4 billion (\$4.6 billion) in 2001. Government investment was 11.9 per cent of GDP in 2003, up from 10.2 per cent in 2002, because of the economic recovery support programme.

The overall financial situation continued to improve in 2002, through efforts made by the monetary authorities. This allowed the government to cope with the high liquidity levels of banks, which had begun building up in the second half of 2001. Strict monitoring of liquidity should allow the monetary authorities to head off the growth of non-performing bank loans and the emergence of serious inflation linked with implementation of the economic recovery support programme.

The Bank of Algeria has not been able to use all market instruments (such as the open market, repurchasing agreements and loan auctions) to conduct its monetary policy. In order to control the growth in money supply, it has thus relied on obligatory reserves and mopping up some of the excess liquidity by tender. To help the process, the obligatory reserves rate was increased from 4.25 to 6.25 per cent in December 2002. This, along with an almost immediate rise in money-market interest

rates, enabled a substantial amount of excess liquidity to be absorbed – between 100 and 160 billion dinars, or \$1.25 and \$2 billion.

The growth of net external assets that began in 2001 continued in 2002 and 2003, reaching 1 755.7 billion dinars (\$22 billion) in December 2002 and 2 266 billion (\$29 billion) in September 2003. This has become the banking system's main source of monetary creation. Internal credits grew 12 per cent in 2002 with the resumption of credits to the economy and steady net credits to the government. This increased the internal credit/GDP ratio by 41.4 per cent, returning it to the 2000 level after dropping 2.5 per cent in 2001. However, internal credit slipped in September 2003 to 1 787 billion dinars (\$22.9 billion) because of fewer credits to the government. Growth of the money supply (M2) thus slowed further in 2003 (September 2002 to September 2003) to 12 per cent, down from 17.3 per cent in 2002 and 22.3 per cent in 2001, returning to the moderate growth rate of 12-13 per cent in 1999 and 2000.

One of the goals of monetary policy was achieved with reduction of inflation to 1.4 per cent in 2002 from 4.2 per cent in 2001. The slight increase to 2.4 per cent in 2003 was caused by higher oil and food prices and the rate is expected to fall again in 2004, to 1.3 per cent as a result of greater food production and especially the return to normal oil prices.

The dinar rose against the dollar in 2002 and 2003 and fell against the euro, so the real effective exchange rate (REER) was steady. The fall against the euro was mainly because of the euro's rise against the dollar and Algeria's exchange policy – owing to the dominance of oil and gas in exports – is to curb the dinar's fluctuation against the dollar. The government will need to revise this policy by giving more weight to the euro, in order to benefit from the debt structure and the competitiveness of non oil-and-gas exports on the European market as the EU association agreement is implemented.

### **External Position**

Algeria has begun a gradual liberalisation of its foreign trade. It streamlined its customs regime in 2002 by

reducing duties to just three levels (5, 15 and 30 per cent), as well as a zero rate, following introduction the previous year of a temporary additional tax (DAP) of 60 per cent on some agricultural, food and textile items. The DAP is to be abolished in 2006, but in five annual stages to protect local firms.

This opening-up is expected to continue over the next few years with implementation of the April 2002 association agreement with the EU (as part of the Euromed initiative) to start setting up a free-trade area within two years.

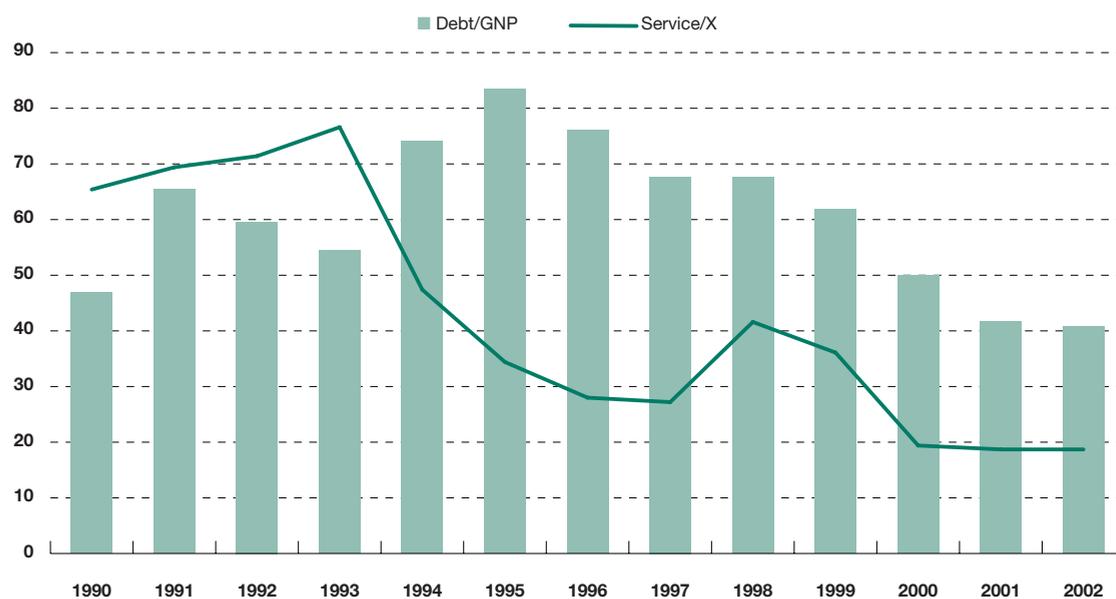
The external balance improved in 2002 as the price of oil rose slightly to \$25.24 a barrel (\$24.85 in 2001) and there was a large surplus of \$4.36 billion (7.8 per cent of GDP), though this was down from \$7 billion (13 per cent of GDP) in 2001. This healthy position was partly due to a trade surplus of \$6.7 billion from exports of \$18.7 billion, 96.8 per cent of them oil and gas products. Imports were \$12.01 billion, significantly more than in 2001 and 2000 because of higher demand for machinery and equipment for the economic recovery programme. The current account balance is expected

to be about the same in 2003 but to deteriorate in 2004 and 2005.

The capital account however had a \$710 million deficit in 2002, but this was an improvement on 2001 (\$870 million) and 2000 (\$2.4 billion). This was mostly due to a levelling out of external debt reimbursements (\$3.22 billion in 2002, \$3.04 billion in 2001 and \$2.86 billion in 2000, including short-term loan repayments). Net foreign direct investment, mainly in the oil and gas sector and telecommunications (first-tranche payment for the second GSM licence), also declined slightly.

These changes in the balance of payments helped the government build up foreign exchange reserves, which reached \$23.1 billion at the end of 2002 (up from \$17.96 billion at the end of 2001 and \$11.9 billion at the end of 2000). This represented 19 months of imports of goods and services (18 months in 2001 and only 4.5 in 1999). The external position was also helped by the lower level of medium and long-term external debt, which after peaking at \$33 billion in 1996, was down to \$22.5 billion by the end of 2002. As a result,

Figure 5 - **Stock of Total External Debt** (percentage of GNP) and **Debt Service** (percentage of exports of goods and services)



Source: World Bank.

Table 3 - Current Account (percentage of GDP)

	1995	2000	2001	2002	2003(e)	2004(p)	2005(p)
Trade balance	0.1	22.6	17.5	12.0	12.1	9.3	7.4
Exports of goods (f.o.b.)	24.4	39.8	34.8	33.5	35.5	33.3	31.9
Imports of goods (f.o.b.)	-24.3	-17.2	-17.3	-21.5	-23.4	-24.0	-24.5
Services	-3.1	-2.7	-2.8	-2.1			
Factor income	-5.2	-5.0	-3.1	-4.0			
Current transfers	2.6	1.5	1.2	1.9			
<b>Current account balance</b>	<b>-5.6</b>	<b>16.4</b>	<b>12.9</b>	<b>7.8</b>			

Source: IMF and domestic authorities' data; projections based on authors' calculations.

the debt service ratio to export was reduced to 18.7 per cent in 2002, though that was still quite high.

## Structural Issues

The government has made reforms in recent years to improve the business climate and stimulate the private sector. But they were mostly small and timid and the country is still not very attractive to foreign investors.

Efforts are under way to take a new approach to oil and gas sector development which will take into account changes in internal and external conditions.

The government has been forced to adapt to changes in EU energy policy, which have introduced new rules and competition to the market. The policy aims to open up the electricity and gas sectors with directives in 1996 (35 per cent of the electricity market by 2003), in 1998 (33 per cent of gas by 2003) and in March 2001 (total liberalisation of both by 2005). Algeria sells more than 95 per cent of its gas to Europe and is an important

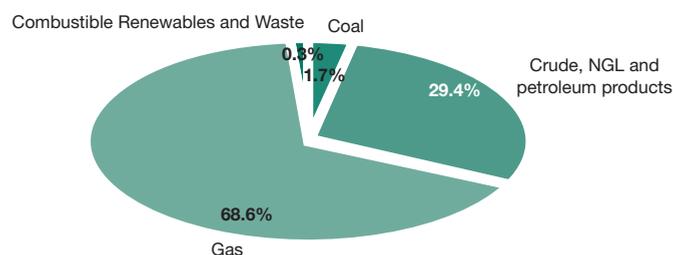
supplier for Portugal (88 per cent), Spain (64), Italy (38), France (24) and Greece (26).

Algeria is the world's fifth largest exporter of natural gas and the second largest exporter of liquefied natural gas and is increasingly integrating into the global economy. Government policy seeks to change the balance between public and private sectors and to open several sectors, including energy, to greater local and foreign capital. Goals include boosting energy's contribution to government revenue, external funding, economic growth and jobs.

Laws on mining (2001), electricity (2002) and oil and gas (still to be passed) are intended to define the state's role in the regulation, production and marketing of these sub-sectors, in order to open them up to private capital. Sonelgaz is to be divided into a limited company with subsidiaries that are open to minority private ownership.

The oil and gas law will set up two autonomous agencies. One of them, Alnaft, which is already operating, mainly grants prospecting and production

Figure 7 - Structure of Domestic Energy Supply in 2001



Source: International Energy Agency.

rights and runs a databank. To avoid conflicts of interest, it cannot invest in the sector and investors, chosen through international bidding, can freely select blocks they want to prospect through official contracts. The other agency regulates transport charges and access to the network of the state oil and gas firm Sonatrach and compliance with technical and environmental rules. Sonatrach is to focus on marketing at home and abroad and will be treated like other investors when new oil contracts are awarded. It will have to fund its own development without government guarantees.

The government wants to encourage private sector participation, more active partnership and more freedom of action for national companies, stimulating prospecting, production and exports, especially in view of growing demand from Europe, and to strengthen Algeria's key position in the world oil and gas industry.

Algeria already has two gas pipelines, one going west through Morocco to Spain and another going east through Tunisia to Italy. An agreement has been signed with Nigeria to look into building a pipeline from the Nigerian gasfields to supply the European market, a project that also includes building a road and fibre optic cable. These links would connect Algeria to both the European Union and Africa. An agreement has also been made with Spain to lay an undersea cable to export electricity and the government has set up the Algerian Energy Company, involving Sonatrach and Sonelgaz, with bids already invited to build a 2 000 MW power station to export 1 200 MW. At this stage, five bids have been received from major international power firms, including the EDF (France), ENEL (Italy), ENDESA (Spain) and AES (United States).

The 2002 association agreement with the European Union makes it more necessary than ever for the Algerian economy and its firms to adapt to a market economy. Extensive legal and financial reform of state firms was launched in the 1990s. As soon as they were legally autonomous and their accounts balanced, some 250 companies were listed for privatisation in late 1997. Despite the sale, or partial sale, of the El

Hadjar steel complex (SIDER) in 2001, the national detergent and cleaning products firm ENAD in 2000 and sale of a second GSM mobile phone licence, privatisation is slow.

In early 2002 the government planned to privatise about 70 small and medium-sized state-owned firms within six months, but two years later none had been disposed of owing to numerous administrative, structural and social problems (substantial layoffs were necessary). Land questions have not been settled and telecommunications and the financial system are still inefficient.

Reform of the financial sector consists of setting up a regulatory and institutional framework, possibly more private and foreign shares in state banks and modernising the sector and the payments system. This involves recapitalising and licensing banks, limiting the concentration of risk, improving the classification and securing of loans, and strengthening supervision of the sector. It also involves changing monetary policy to use indirect market instruments and using the market to raise domestic budget funding.

Successful banking reform depends on dropping the obligation of banks to prop up failing state firms, which effectively subsidises them to the tune of one per cent of GDP each year (according to the World Bank). The two largest private banks (6 per cent of all deposits) collapsed because of fraud and failure to observe prudential rules. This cost the government the equivalent of 2 per cent of GDP.

## **Political and Social Context**

Over the past 15 years, Algeria has ceased to be a monolithic regime. This difficult transition has involved debate about how to democratise and organise public life, about the role of religion in political life, and about the balance between military and political power.

Most people in Algeria and abroad saw the 1999 election of Abdelaziz Bouteflika to the presidency as a chance to start a new stage of the transition because of his

international experience and great familiarity with the complexity of Algerian politics.

Opposition parties disputed the election of Abdelaziz Bouteflika, but he formed a more open government, with ministers from several political parties and kept his campaign promises by making reforms to restore civil peace and boost political stability through a referendum and a law on civil harmony. He amended laws on community groups to encourage people to take part in local government and, most recently, made concessions to the Berber minority, including constitutional recognition of their language. Reforms also involved increasing the independence and openness of the justice system by adapting and harmonising laws, allowing judges to specialise (notably in economic law), decentralising courts and renovating the prison system.

His government also strove to revive Algeria's role through active diplomacy in North Africa by helping to build the Euromed co-operation area and by improving relations with the United States. However, the results were very mixed. Social and economic achievements include renewed growth, macroeconomic stability and better (though less than hoped for) performances on housing, unemployment and poverty. But lawlessness has not yet been completely eradicated, the justice system is still not fully independent and corruption is far from eliminated.

It was probably his restoration of civil peace that got Bouteflika reelected on 8 April 2004 with 85 per cent of the vote. About 58 per cent of voters turned out (fewer than in 1999 but more than at the May 2002 parliamentary elections) in what was the country's third contested election. The main opposition candidate, former prime minister Ali Benflis, got only 6 per cent of the vote and disputed the result.

The early years of independence saw a focus on social policies, with spending on education and health around 10 per cent of GDP during the 1970s and 1980s. However, poor results were disappointing and aggravated by spending cuts in the 1990s. With the return of economic growth, efforts to improve these areas have

shown up in indicators for poverty, unemployment, living standards, health and education.

Fighting poverty is a priority and the first national anti-poverty and anti-exclusion conference took place in Algiers in late October 2000. Poverty grew significantly between 1987 and 1995, when 22.6 per cent of the population was living below the poverty line. This was probably due to weak growth, lack of government money for social sectors, the rise of terrorism and the bad reaction of local and foreign investors, as well as the social costs, notably unemployment, caused by attempts at economic adjustment.

The workforce was about 8.6 million people at the end of 2001 (85 per cent men and 59 per cent urban dwellers), of which 6.2 million were thought to be in employment. Joblessness, despite dropping nearly 2 per cent in the past three years, is a high 27.3 per cent and is likely to be a major government concern and main source of social and political unrest, as it affects 51 per cent of those under 20 and 46 per cent of those aged between 20 and 24.

The PSRE economic recovery support plan aims to improve living standards by urban renewal and upgrading housing, sewage, water supply and garbage collection. Housing is still very poor despite being a well-funded government priority. Much of it does not conform to building regulations and access to new housing is time-consuming and difficult for most people. Moreover, government aid and money for cheap housing is not reaching its destination. The government now wants to focus on providing affordable shelter for everyone, especially the low-paid, and reduce the burden of housing subsidies on the state at the same time as maximising job creation.

Though nearly 90 per cent of urban dwellers had access to piped water in 2002, the quality of service in towns and cities is very poor. The government blames this on institutional, financial and management problems, as well as the lack of infrastructure owing to delays in building dams and aqueducts, all aggravated by persistent drought. As a result, water is rationed everywhere (4 to 6 hours daily supply, three days a

week in 2002). The situation is worse in rural areas, where lack of drinking water and storage facilities threatens health and puts a heavy burden on women, who have to go long distances to fetch it.

Similarly, nearly 80 per cent of people were connected to a sewage system in 2002 but most of the 49 treatment plants were out of action and raw sewage is mostly dumped in valleys and the sea, creating a very serious health danger. The government plans, with the help of the private sector, to build new dams and desalination plants, spend more on upgrading existing infrastructure, improve water supply and sewage collection and treatment, and to strengthen its solid waste handling programme (Progdes).

Algeria has made great efforts to expand access to medical care, as shown by a rise in life expectancy (to 71 years in 2002 from 67.4 in 1990) and lower infant mortality (32 per cent in 2002, down from 46 per cent in 1990). Further effort is needed, however, because of deteriorating infrastructure and declining facilities. In 2000, there was one doctor per 1 338 people (1 250 in 1997) and one hospital bed for every 1 922 people (1 960 in 1997). Medicine is sometimes lacking, including in hospitals. The government is trying to make the sector more efficient, cost-effective and better quality by boosting preventive medicine, especially in primary care and reproductive health, stepping up the fight against infectious diseases, especially among the poor, and combating the rising rate of chronic illnesses. Funding for this may be hard to find.

A national commission was set up in 2000 to draft an education reform. In 2002, illiteracy among over-15s had declined to 31.2 per cent (32.2 in 2000 and 47.1 in 1990) and enrolment of 6-12 year-olds to 86.5 per cent (87.8 in 1997). More and more girls were enrolled at all levels – 47.1 per cent in primary (46.1 in 1997) and 56 per cent in secondary education (52.5 in 1997). Boys' enrolment, however, fell to 89 per cent (92 in 1997). The dropout rate was 7.4 per cent for 6-12 year-olds in 1998, despite a good ratio of one teacher for every 21 pupils in 2000, which was high compared with other countries at a similar level of development.

The other contrast is the gap, highlighted by the private sector, between the level of higher and vocational education and the need for skills and training for the productive economy, despite the large amount spent on these sectors. There is also disparity at all levels of education between regions and between urban and rural areas.

This situation spurred the government to set up the reform commission to improve educational quality and efficiency in view of high unemployment and the opening of the economy. The commission has focused on reviewing human resource policies for basic education (teachers' pay, skills assessment, promotion, deployment and training), action to reduce disparities as much as possible, the gradual adaptation of higher education to new social and economic demands, the reduction of the government's financing burden (especially for subsidies to universities), the increase of on-the-job training and modernisation of vocational schools so they respond better to the needs of the labour market.