

PEOPLE'S DEMOCRATIC REPUBLIC OF ALGERIA



**AFRICAN DEVELOPMENT BANK
GROUP**

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ACRONYMS AND ABBREVIATIONS

| | |
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| ADB | African Development Bank |
| AMU | Arab Maghreb Union |
| BTP | Building and Public Works |
| CSP | Country Strategy Paper |
| DA/DZD | Algerian Dinar |
| EU | European Union |
| FRR | Revenue Regulation Fund |
| GDP | Gross Domestic Product |
| HDI | Human Development Index |
| IFC | International Finance Corporation |
| IMF | International Monetary Fund |
| LFC2009 | Supplementary Finance Law 2009 |
| MLA | Maghreb Leasing Algeria |
| MTEF | Medium-Term Expenditure Framework |
| NEPAD | New Partnership for Africa's Development |
| SME/SMI | Small and Medium-sized Enterprises/Small and Medium-sized Industries |
| SONATRACH | National Hydrocarbons Research, Production, Transport, Processing and Marketing Company |
| UA | Unit of Account |
| UNDP | United Nations Development Programme |
| WAEMU | West African Economic and Monetary Union |
| WTO | World Trade Organisation |

EXECUTIVE SUMMARY

1. **The last Country Strategy Paper (CSP) for Algeria (ADB/BD/WP/2000/101-/Rev.1) was approved by the Board in October 2000.** It covered the period 2000-2002 and was updated in June 2002. In February 2006, Algerian authorities suspended external borrowing and repaid all debts to multilateral institutions. This note is to inform the Board of recent developments in Algeria and to report on prospects for cooperation between the Bank and Algeria, during the period 2011-2012.

Political Developments

2 **On the political front, Algeria is relatively stable.** President Abdelaziz Bouteflika, was re-elected in April 9th, 2009 for a 5-year third term. After some difficult years, during the nineties, the security situation is improving. However, since the beginning of 2011, Algeria faced social tensions resulting from protests against unemployment and the high cost of living. The protesters are also calling for more democracy and freedom. In response, the government has taken some measures including: (i) economic measures to support employment and to boost the purchasing power of the population; (ii) lifted the state of emergency, in force since 1992; and (iii) announced the revision of the Constitution, electoral laws and the decriminalization of the press.

3 **Economically, Algeria has recorded good performance, in the past few years.** From 2004 to 2010, GDP grew at an average rate of 3.4% due to the performance of the oil sector, but also the growing contribution of services sector and public construction.

4 **In the social section, the Algeria has made significant progress towards achieving the Millennium Development Goals (MDGs).** The ratio of the population living in extreme poverty is estimated at 0.5% in 2009 against 1.9% in 1988. Access to basic services (water, electricity, education and health) has improved. However, access to housing and unemployment (estimated at 10% in 2010, 27% for young people under 30 years), remain major concerns.

5 **With regard to governance, the Algerian authorities have engaged in significant reforms** in the regulatory and institutional framework to modernize public administration and strengthen economic and financial governance.

6 **Despite progress made, the Algerian economy faces constraints and challenges that may hinder its development potential.** These include: (i) low diversification of sources of growth and the productive base of the economy; (ii) the persistent imbalances in regional development; (iii) a business climate not conducive to private sector development; (iv) the low efficiency of the banking and financial sector; and (v) the weak capacity of public administration.

Areas of dialogue

7 **In line with Government priorities,** the areas in which Algeria and the Bank will continue dialogue are: (i) strengthening the capacity of the administration; (ii) private sector development; and (iii) regional integration, with both Mediterranean region and sub-Saharan Africa. Given the changing needs of the country, the Bank, in line with its strategy for middle-income countries, will adopt a flexible and dynamic approach in its response to Algeria's priorities.

Recommendation

8 In light of the foregoing, it is recommended that the Board approves this Dialogue Note.

I. INTRODUCTION

1.1 *The last Country Strategy Paper (CSP) for Algeria (ADB/BD/WP/2000/102/Rev.1) was approved by the Board of Directors in October 2000, and updated in June 2002 (ADB/BD/WP/2000/102/Rev.1/Add.1). Under this strategy, the cooperation between the Bank and Algeria focused on the following priorities: (i) the economic and financial reforms; (ii) the infrastructure rehabilitation and development; and (iii) the private sector development, in particular SMEs/SMIs.*

1.2 From October 2000 to December 2002, the Bank approved financing for Algeria for a total amount of UA 313 million (about USD 491 million). As a result of the availability of significant resources generated by successive increases in oil prices, the authorities decided, in February 2006, to suspend external borrowing and to repay in advance the country's debts to multilateral institutions. In line with this decision, Algeria cancelled the uncommitted balances of its loans and made early reimbursement of its debt to the Bank.

1.3 *Since 2006, Algeria and the Bank have kept up the dialogue in an effort to give a new direction to their cooperation.* Indeed, from 2006, the cooperation has focused on technical assistance for capacity building and analytical work aimed at supporting the modernization of central government and implementing the reforms undertaken by the government. This paper presents recent developments in the political, economic and social areas, the constraints and challenges facing the country, as well as the areas and issues for dialogue with the Government during the period 2011-2012.

Box 1: Country Profile

Located in North Africa, Algeria has an area of 2,381,741 km². In late 2010, its population was estimated at 35 million. The capital, Algiers, has more than 2.5 million inhabitants. The other major cities in terms of number of inhabitants are: Sétif, Oran, Constantine and Annaba.

The Sahara covers 84% of the country, the steppe 8.5% and the coastal fringe (mountains and plains) 7.5%. The climate is mainly Mediterranean in the northern and coastal regions, continental in the hinterland, and tropical in the south with large variations in temperature between day and night. Gross Domestic Product (GDP) per capita was estimated at over USD 4,000 at end 2010. The Algerian dinar (DZD) has been in use since 1964, when it replaced the Algerian franc. The average exchange rate in first quarter 2011 was DZD 73.1 to USD 1.

Algeria is one of the major exporters of oil and gas. It is the 14th largest world exporter of oil and supplies almost 20% of Europe's natural gas needs. The oil and gas sector dominates the economy, accounting on average over the past five years for 43% of GDP, 98% of exports and 75% of budget revenue. Algeria has huge oil and gas reserves. According to estimates, its proven oil reserves stand at 11.8 billion barrels, while those of natural gas total about 4.5 billion m³, placing the country 7th in the world.

II RECENT DEVELOPMENTS

2.1. Political Developments

2.1.1 At the political level, since the difficult decade of the 90s, efforts have been made in terms of democratic opening and political governance (change from the one-party system, press and civil society freedom, etc.). These advances have led to the emergence of an increasingly dynamic civil society. President Abdelaziz Bouteflika, the current Head of State, was re-elected on April 9, 2009 for a 5 years third term. The parliamentary elections held in May 2007 allowed to renew the People's National Assembly (389 members). The People's National Assembly and the Council of the Nation (144 members) make up the legislature. The next parliamentary elections are scheduled for 2012.

2.1.2 Several initiatives have been taken to strengthen and consolidate social peace, including the Charter for Peace and National Reconciliation, adopted by referendum in 2005. The implementation of this Charter, which grants amnesty for political violence acts committed in the 90s, helped to significantly improve the security situation.

2.1.3 Given the events experienced at the beginning of 2011, by some countries in the region, including Algeria, which has experienced social turmoil linked especially to the rising prices of basic foodstuff, unemployment and for reinforcing democratic process. The Algerian authorities took economic measures aimed to support employment and to boost purchasing power of the population, and political measures, including lifting the state of emergency in force since 1992,

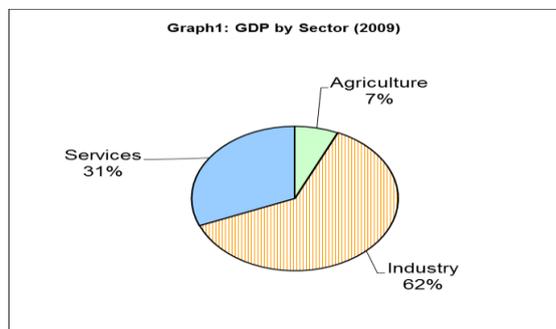
the revision of the Constitution and the electoral law as well as the decriminalization of the press. To this end a Commission has been created and consultations have been initiated. It should be noted also that the Libyan crisis could lead to significant collateral damage to its neighbouring countries, including Algeria

2.2 Economic Developments

2.2.1 *In recent years, Algeria has recorded remarkable economic performance, resulting in the consolidation of the macroeconomic framework.*

That notwithstanding, the economy remains highly dependent on the oil and gas sector and therefore very sensitive to external shocks (see Box 1). From 2004 to 2010, the country's GDP growth rate averaged 3.4%, driven by the performance of the oil and gas sector, as well as the contribution of the services, construction and public works sectors

(BTP) and, to a lesser extent, the agricultural sector, which recorded a bumper cereal harvest in 2009. The vitality of the services and construction sectors stems mainly from the huge volume of public investments. The vitality of these sectors is reflected in the relatively high non-oil GDP growth rate, which stood at 6.3% per annum during the period 2004-2010. However, its contribution to GDP is still low; it's a real constraint facing the challenge of diversification of income sources of the country.

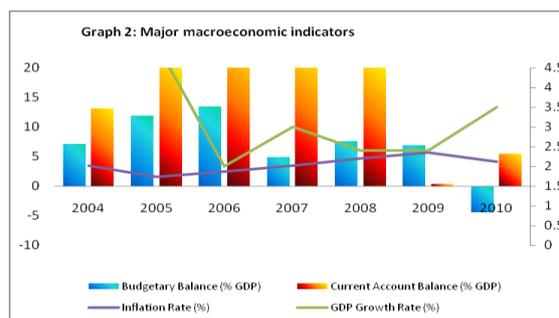


2.2.2 At the sector level, agricultural production increased in 2010 by about 8.5%, against 9% in 2009, despite a tight decrease of the sector growth, reflecting an exceptional cereal production due to favorable climatic conditions and the acceleration in the implementation of the agricultural and rural renewal Plan. In addition, the different recovery programs and support to growth have allowed the construction sector, which accounted for nearly 10% of GDP in 2010, registering a growth of about 10% over the last five years. The services sector, with a GDP contribution of about 26%, recorded an average growth of 9% during the same period.

2.2.3 Despite the decline in global demand and prices of oil observed in 2009, under the impact of the global economic crisis, GDP growth remained stable at 2.4%, due to the good performance in others sectors. In 2010, with the resumption of economic activity and rising global oil prices that ensued, growth stood at 3.5%. Meanwhile, non-oil growth was stronger at 9.3% in 2009 and 5.5% in 2010. The medium term growth prospects promise to be favourable, at 3.9% in 2011 and 3.6% in 2012.

2.2.4 *Inflation remained under control, mainly due to the prudent monetary policy pursued by the Bank of Algeria.* During the period 2004-2010, inflation was around 3.6% annually. As a result of the pressure exerted by rising food prices, the rate reached 4.5% in 2008, 5.7% in 2009 and 4.1% in 2010. The inflation level should rise slightly in 2011 to around 4.5%, due to the increased pressure exerted on the prices of imported food products. However there is a moderating impact generated by the support of new food commodities (oil, sugar). This support is in addition to that applied prior to 2011 for wheat and milk powder. Despite this performance, Algeria still experienced in early 2011 turmoil caused by imported inflation related to the rise in global commodity price.

2.2.5 The budgetary position, which was in surplus from 2006 to 2008 (12.9% of GDP in 2006, 11.4% in 2007, 6% in 2008), recorded in 2009 and 2010 deficits reaching 6.9% and 4.4% of GDP, due to the combined effect of lower oil revenue and high levels of public expenditure following the implementation of an ambitious public investment programme. The deficits of 2009 and 2010 were funded in part by the Revenue Regulation Fund (FRR) set up in 2000 (see Box 2) to insure public spending against fluctuations in oil production and prices. The continuation of the major infrastructure works policy under the Five-Year Plan 2010-2014 (USD 286 billion) would generate a return to a budget surplus under the current increasing trend of the oil prices in the international market. It is worth noting that the FRR resources, estimated at nearly USD 60 billion end December 2010, are enough to keep the budget on course in terms of supporting domestic demand and economic growth.



2.2.6 The external current account remains in surplus, the poor performance of 2009 notwithstanding. From over 20% of GDP on average since 2005, the current account balance dropped to less than 1% of GDP in 2009, mainly due to the fall in the value of oil exports (-42.5% in 2009, compared to 2008) linked to the global economic crisis. The situation improved considerably in 2010 with a current account surplus of 5.5% as a result of the rising price of oil per barrel, enabling export earnings to reach USD 56.6 billion, compared to USD 45.5 billion in 2009. The official foreign exchange reserves, estimated at nearly USD 157 billion at end 2010 (as against USD 149 billion in 2009), remain at a very comfortable level, and represent almost three years of goods and services imports.

2.2.7 In line with its debt reduction policy adopted since 2004, Algeria has opted for prudent debt management. After the early reimbursement of the loans from multilateral institutions and the Paris and London Clubs from 2004 to 2006, Algeria strengthened the sustainability of its external debt. The country's outstanding external debt (estimated at USD 5.4 billion as at 31 December 2009) represents about 2.7% of GDP. For its part, the domestic public debt was estimated at DZD 814 billion (about USD 11.4 billion) at end 2009, representing close to 8% of GDP. The Government's debt reduction policy, coupled with prudent foreign reserves management, has generated significant resources with which to fuel growth and shelter Algeria from the domino effects of the turmoil in the global financial markets.

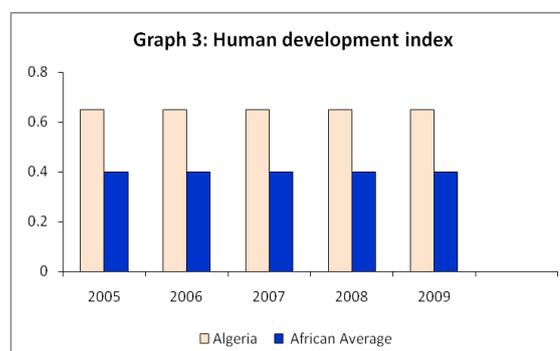
Box 2: Revenue Regulation Fund (FRR)

The Revenue Regulation Fund (FRR) was set up by the Government in 2000 to shield public spending from fluctuations in oil production and prices. The FRR derives its resources from the differential between the budgeted oil tax revenue and those actually collected. Oil tax proceeds are calculated in the budget estimates on the basis of a reference price (USD 37 per barrel for 2009 and 2010 budgets), coupled with the dinar/dollar exchange rate and the estimated oil output the year.

Initially, the Fund's resources were used primarily for external debt servicing. Currently, with the external debt-related structural constraints under control, and considering that the authorities are continuing with the major infrastructure works as reflected in the Five-Year Plan 2010-2014, the focus of the FRR is on securing the medium-term development programmes. This Fund helps to contain inflation since the huge sums lodged therein would have been injected into the economy as liquidity, thereby fuelling inflation. In 2009, the FRR was used to finance part of the budget deficit totalling USD 4.9 billion. In late 2010, FRR resources were estimated at nearly USD 60 billion.

2.3. Social Developments

2.3.1. Algeria has made tangible strides towards improving social indicators and achieving the MDGs (see Annex 6). According to the human development index (HDI) published by UNDP in 2010, Algeria ranks 84th out of a total of 169 countries. The proportion of the population



living in extreme poverty is estimated at 0.5% in 2009, compared to 1.9% in 1988. In terms of health, life expectancy at birth surged from 71 years in 2000 to over 75.5 years in 2009. In education, progress was also recorded, with the enrolment rate for children under 6 years of age rising to almost 97.96% in 2009 from 43% in 1966.

2.3.2 *Notwithstanding this progress, Algeria continues to face major social challenges related to unemployment, especially youth unemployment, housing and healthcare quality.* In recent years, the unemployment rate has dipped from nearly 30% in 2000 to 10.2% in 2009, but it remains high among youths under 30 years for whom the figure stands at 27%. Unemployment is believed to be one of the main causes of the demonstrations of early 2011 and also one of the major factors of the illegal immigration of young people to Europe. To address this matter, the Government has established a key mechanism for providing counselling and support to unemployed youths (establishment of the National Youth Employment Support Agency and mechanisms to facilitate professional integration). However, the results of these initiatives are still mixed. The Government is also focusing on diversifying the sources of growth and developing the private sector as likely areas of job creation. In addition, efforts are underway to alleviate the housing problem. More than one million housing units were built between 2004 and 2010, which helped to raise the housing stock to 7,090,000. Even so, this is still short of the needs, considering the rapid urbanization that the country has experienced over the past 30 years.

2.4. *Governance, Business climate and regional integration*

Governance

2.4.1 *The authorities are continuing their efforts to strengthen transparency in public finance management and the fight against corruption.* Under the African Peer Review Mechanism (APRM) to which Algeria acceded in 2003, a plan of action was established to promote good governance in the implementation of economic policy and public finance management. Reforms were initiated to strengthen monetary and financial transparency, and the reliability of economic information. In public finance management, a budget systems modernization programme was initiated to strengthen visibility and transparency through the establishment of a medium-term expenditure framework and instituting multi-year budget programming. There have also been reforms aimed at modernizing the tax system, improving customs performance and public procurement regulations.

2.4.2 *With regard to corruption, Algeria is ranked 105th out of 178 countries on the 2010 Corruption Perception Index published by Transparency International (compared to 111th out of 180 countries in 2009).* This ranking shows that efforts should be pursued to prevent and combat this scourge. To this end, the authorities have adopted several legislative and regulatory measures. Algeria has ratified the anti-corruption conventions of the United Nations and the African Union. The authorities have established a legal and institutional framework, including the adoption of a law on preventing and combating corruption. They have also set up a body responsible for implementing government anti-corruption policy and a financial intelligence processing unit, tasked with combating fraud and money laundering. In addition to improving efficiency in the management of budgetary resources, measures have been taken including: (i) overhauling the general rules and regulations of the public service in order to promote the values of integrity and accountability in government services; (ii) facilitating access to justice services and reducing delays in the processing of cases; and (iii) reorganizing and strengthening public finance control and audit bodies (General Finance Inspectorate, Audit Court, etc.).

Business climate

2.4.3 *Algeria has undertaken reforms to facilitate business creation and improve the framework within which businesses operate,* including: revising the commercial code, simplifying business registration procedures as well as providing tax relief for businesses. In

addition, a National Investment Agency aimed at facilitating the establishment of companies was set up. Other measures include the development of industrial zones to facilitate the welcoming of investors, the amendment of the legislation on land access (revision of the terms and conditions for awarding concessions to public land, etc.).

2.4.4 Specific measures have also been taken to encourage the creation of SMEs, including establishing guarantee and investment funds, launching a modernization programme for industrial enterprises, reducing the number of documents required to start a business, improving the conditions for issuing building permits, reducing the cost of land and real estate transactions and the timeframe for reviewing cases, thanks to the adoption of a new code of civil procedure.

Regional Integration

2.4.5 ***Algeria has in recent years intensified its efforts to diversify its trade and foster regional cooperation.*** At the level of the Arab Maghreb Union (AMU), despite the low volume of trade between Algeria and other countries in the region, which still accounts for less than 3% of its overall trade, a steady increase has been recorded. Indeed, with the exception of 2009 when it declined due the effects of the global economic crisis, trade between Algeria and its Maghreb partners has continued to grow. It rose from USD 1.04 billion in 2007 to over USD 2 billion in 2008. Algeria is also engaged in initiatives to develop trade with other African countries. It has concluded trade agreements with several of these countries and initiated discussions with the West African Economic and Monetary Union (WAEMU), with a view to concluding a trade and investment agreement. Algeria has also joined the Greater Arab Free Trade Area (GAFTA).

2.4.6 ***With regard to partnership with the European Union (EU), Algeria concluded an association agreement with the latter in 2001.*** This agreement, which came into force in 2005, aims to establish a free trade zone between the EU and Algeria. In its trade component, the agreement provides for a tariff reduction scheme which should lead eventually to the free movement of goods between Algeria and the EU. Other initiatives to increase trade with Europe are also underway. These include the gas pipeline linking Algeria to Europe via Spain, in operation since April 1, 2011. Furthermore, Algeria is pursuing negotiations for accession to the World Trade Organization (WTO) in order to consolidate the ongoing economic reforms and be better integrated into the global economy.

2.4.7 ***As far as South-South cooperation is concerned, Algeria plays a key role in several regional projects and initiatives,*** under the New Partnership for Africa's Development (NEPAD). These include the Trans-Saharan Highway connecting six countries (Algeria, Mali, Niger, Tunisia, Chad and Nigeria), the Nigeria-Algeria pipeline project; the optical fibre cable project between Abuja (Nigeria) and the Beni Saf Port, via Niger; and the Trans-Maghreb Highway, including the 1,200 km-long East-West Highway linking Tunisia to Morocco, which is near completion.

Reforms assessment

2.4.8 **Despite the efforts engaged for reforms, the results remain mixed.** The implementation of economic reforms has allowed an improvement in the economic indicators of the country and a bounce back to a higher sustained growth. However, structural constraints in the economy, including lack of diversification and persistence of higher unemployment rate, in particular for young, are major challenges. Also, further measures to improve the business climate and promote private investment, have not yet achieve the expected results. In the "Doing Business 2011" report, Algeria is ranked 136th out of 183 countries. The main weaknesses lie in the unstable regulatory framework, high transaction costs stemming from time-consuming bureaucratic formalities, the difficulty for SMEs to obtain bank financing, the inflexibility of labour legislation and the complexity of tax procedures. It should also be noted that the new

measures relating to foreign investment supervisory systems and the import provisions (see Annex 5), introduced to supplement previously existing provisions requiring companies established in Algeria to seek funding for their projects preferably from local banks, could have a negative impact on the business environment. It could indeed result in a halt in domestic and foreign private investments, particularly in the industrial and services sectors.

2.4.9 The reaction of the Algerian authorities, facing mixed results from the privatization of the productive sector, seems rather to go back to the support by the State of production activities. This option seems to be a new orientation of the new program 2010-2014, which includes substantial investment in the rehabilitation of the industrial texture, the revitalization and recapitalization of large public industrial groups, like the SNVI (automotive), SAIDAL (Pharmacy) ENIE (Electronic), PMA (Agricultural Machinery), ENMTP (Public construction machinery).

2.4.10 To strengthen economic performance over the last decade, Algeria has to continue reforms leading to raise the challenges in terms of improving the business climate, competitiveness and promoting private investment, essential for economic diversification and job creation.

2.5. Cross cutting Issues

Gender

2.5.1 ***Algeria has also made progress in gender mainstreaming and the fight against social inequalities.*** Gender equality is guaranteed by the Constitution and the rights of women are protected by several laws (Family Code, Nationality Code, Criminal Code, etc.). A constitutional amendment introduced in November 2008 strengthened the political rights of women by increasing their chances of access to representation in elected assemblies. However, the proportion of women in institutions of power is still relatively low: about 8% in Government and 7% in Parliament.

2.5.2 Concerning access to education, there is very little difference between the sexes. The gender parity index (ratio of gross enrolment rates of girls to boys) is 0.93, attained 2009. In the country, the number of girls enrolled is higher (66% of the school population) than boys. However, the literacy rate among women is estimated at 60%, against 84% for men.

Environment and Climate change

2.5.3 ***The environment and climate change are important issues for Algeria.*** The environment-related challenges the country faces are numerous: (i) excessive population concentration on the coastline, giving rise to tensions over the use of soil and water resources; (ii) economic activity dominated by the oil and gas exploitation, with natural gas reserves representing almost 4% of world total; and (iii) persistence of drought in some regions.

2.5.4 ***To address these challenges and promote sustainable development, the authorities have implemented an environmental action plan,*** focusing on reducing pollution and noise, preserving biodiversity and natural spaces, training and raising of public awareness on environmental issues. As part of implementing this plan, legislation aimed at integrating environmental protection into public policy has been adopted. Thanks to these measures, significant advances have been made in eliminating industrial pollution.

2.5.5 ***Regarding climate change, the Government has put in place a pilot project for reducing CO₂ and greenhouse gas emission.*** A national reforestation plan that supports the fight against erosion and the protection of watersheds is also being implemented. Furthermore, the Government has set up a mechanism for promoting renewable energy and intends to develop

the contribution of solar energy to the country's energy mix. In this regard, it has established a special fund (Renewable Energy Development Fund) supported with oil tax revenue, and meant to finance renewable energy activities and projects.

III. CONSTRAINTS AND OPPORTUNITIES

3.1. Major Constraints

3.1.1 The Algerian economy is facing significant constraints that could hinder its development potential. These constraints stem primarily from: (i) the low diversification of growth sources and the productive base of the economy; (ii) the imbalances in regional development; (iii) a business climate that is still not adequately conducive to private sector development; (iv) the low efficiency of the banking and financial sector; and (v) the weak capacity of public administration.

Poor Diversification of Growth Sources and the Productive Base of the Economy

3.1.2 The Algerian economy remains highly dependent on the hydrocarbons sector. Non-oil exports remain marginal (barely 2% of total exports) and economic performance is strongly dependent on changes in oil demand and prices. The oil sector generates over 70% of budget revenue, which is a source of vulnerability for the Algerian economy. Faced with this situation, the Government has taken steps to increase the share of other (non-oil) sectors in the composition of value added. In this regard, it has initiated: (i) the implementation of an infrastructure development policy geared towards greater regional balance, with a view to fostering the spatial spread of economic activity; (ii) the promotion of SMEs by guaranteeing bank loans, granting interest rate subsidies by the Treasury on loans to SMEs, encouraging new ways of financing the economy (leasing, venture capital firm), reducing the pressure of taxes (direct and indirect), the creation of a National Investment Fund and the establishment of 48 local investment funds (one per *wilaya*), with a capital of DZD 1 billion. For these initiatives to be effective in helping to strengthen the diversification of growth sources and improve the competitiveness of the economy, they must be underpinned by far-reaching sector reforms

Regional Development Imbalances

3.1.3 Algeria continues to face significant regional imbalances. The coastline, which accounts for barely 4% of the territory, is home to the bulk of the population and economic activities. Vast territories to the south, representing nearly 87% of the country's surface area, remain under populated (9% of the population) and poorly endowed in terms of economic and social infrastructure. In addition to these territorial disparities, Algeria has experienced significant urbanization over the last three decades, with the urban population rising from 40% in 1977 to about 70% in 2010. This huge urban migration is one of the causes of the increasingly precarious living conditions of the urban and rural population.

3.1.4 These huge and potentially costly imbalances are a major challenge for Algeria. To ensure their eradication and create conditions for sustainable and harmonious growth countrywide, a National Land Use Planning Scheme (SNAT) was adopted in May 2010, aimed at gradually reducing regional inequalities and enhancing the attractiveness of areas lagging behind in development.

Business Climate not Conducive to Private Sector Development

3.1.5 Algeria's business climate is one of constraints (see Section 2.4.6) that impede private sector development and undermine its role as an engine of growth. In light of such constraints, it is imperative to keep up and deepen ongoing reforms in order to render the country's business climate more conducive to private initiative. The objective is to develop the diversification potential of Algeria's economy and create conditions for employment-generating growth.

Essentially, this means improving conditions and facilitating the access of SMEs to funding, as well as further streamlining administrative procedures to increase efficiency in public services (customs, taxation, justice, etc.), and continuing efforts to upgrade infrastructure.

Limited Effectiveness of the Financial Sector

3.1.6 The Algerian banking system is still largely dominated by the public sector (state-owned banks hold about 90% of total assets), and as such does not contribute sufficiently to meeting the funding needs of the private sector. The capital market also remains underdeveloped, with a limited number of instruments and alternative sources to bank financing. This underscores the need to: (i) take steps to enable banks to modernize their practices and procedures, notably by improving their analysis and risk management capacity; (ii) establish more suitable mechanisms for private investment funding; and (iii) strengthen bank supervision and control.

Weak Public Administration Capacity

3.1.7 The effective implementation of the major Public Investment Programme (PIP 2010-2014), worth about USD 286 billion, calls for an efficient administration, capable of managing public resources effectively. However, the institutional capacity building in both strategic planning and project evaluation and control and monitoring, though an essential prerequisite for the programme to achieve expected results, is still limited. Indeed, the execution times of implementation of major infrastructure projects largely exceed initially established schedules. The multiplicity of actors involved in implementing the PIP also represents a major challenge to the Algerian administration - a challenge partly addressed with the establishment in 2007 of the National Development Equipment Institution (CNED). Against this backdrop, the authorities should continue their efforts to strengthen government capacity for coordinating public policies, as well as designing and implementing the PIP.

3.2 Opportunities

3.2.1 In addition to its natural potential (abundant oil resources, ideal geographical location, a potentially large domestic market with 35 million inhabitants, etc.), Algeria now has substantial assets to accelerate economic growth and sustainable development, including:

- (i) A conducive macroeconomic framework ensuing from a prudent management of oil resources, almost no foreign debt, low inflation, huge foreign exchange reserve and substantial budgetary savings. This situation provides an excellent opportunity to accelerate reforms, and is a definite asset in terms of attracting private investment and encouraging economic diversification;
- (ii) A political commitment to undertake reforms whose implementation is a necessity induced by the major political, economic and social changes that the country is experiencing; and
- (iii) A comfortable financial position, allowing Algeria to embark on major public investment programmes that promise to have a significant social impact, particularly in terms of creating jobs and improving the people's access to basic social infrastructure.

3.2.2 The combined effects of these advantages are likely to create an enabling environment for implementing and accelerating structural reforms and sector policies, thus paving the way for a successful and competitive economy.

IV. STRATEGIC THRUST AND GOVERNMENT PROGRAMME

4.1. Strategic Thrust

4.1.1 *Government's objective is to meet the major challenges resulting from the constraints earlier described in order to render Algeria a modern country with a competitive and diversified economy.* This goal is reflected in the new Five-Year Plan 2010-2014, which constitutes the reference framework of the Government's economic and social programme.

4.2 Government Programme

4.2.1 The Five-Year Plan 2010-2014, which includes a substantial public investment component, was approved in August 2010 and has a total financial allocation of USD 286 billion. It is a continuation of the reform programmes initiated by the Government with the backing of the Bank and the Bretton Woods Institutions, to support Algeria's evolution from a planned economy to a market economy. The implementation of these programmes, the last of which was the Supplementary Programme to Support Growth (PCSC, 2005-2009), made it possible to undertake major structural reforms concerning notably foreign trade, the tax system, State-private sector partnership and civil society

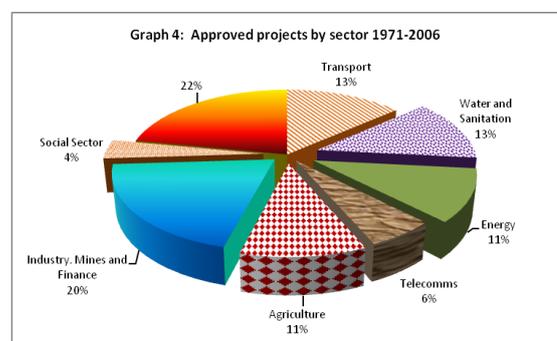
4.2.2 Therefore, the new Five-Year Plan is aimed at consolidating achievements, with particular emphasis on continuing the major works policy to develop and modernize infrastructure. It will be implemented alongside economic and sector reforms geared towards: (i) consolidating macroeconomic stability; (ii) further improving the business environment; (iii) diversifying the economic fabric; and (iv) strengthening the efficiency of public administration. The plan is based on two components: (i) completion of major projects already underway, particularly in the areas of transport (railway, roads), water and energy, amounting to approximately USD 130 billion; and (ii) start-up of new projects for about USD 156 billion.

4.2.3 In the infrastructure sector, the Government intends to carry on with efforts to provide the country with modern public utilities (water, transport, energy, information and communication technology, etc.). It plans to devote USD 90 billion to infrastructure sector investments over the next five years. In agriculture, further actions will be taken to improve productivity and ensure food security. Lastly, with regard to human development, the Government plans to increase and improve the country's capacity in health, education and housing, and the population's access to sanitation, water and energy.

V. ALGERIA'S COOPERATION WITH DEVELOPMENT PARTNERS

5.1. Cooperation with the Bank

5.1.1 *From 1971, the date of commencement of its operations in Algeria, to 2006*, the Bank's assistance through the funding of investment projects and reform support programmes reached a total amount of UA 2.05 billion (about USD 3.2 billion). During this period, the Bank was able to assist Algeria in its development efforts by financing operations in infrastructure (transport, energy, water and sanitation, telecommunication), developing the industrial sector, especially SMEs/SMIs, through lines of credit extended to Algerian banks, agriculture and education.



5.1.2 Within the framework of the proposed new orientation, Bank assistance to Algeria is currently provided through the resources of the Technical Assistance Fund for Middle-Income Countries (MICs). Three operations totalling approximately UA 1.6 million (equivalent to USD 2.5 million) are underway. They concern: (i) development of electronic banking; (ii) capacity building for the National Development Equipment Institution (CNED) for evaluation and implementation of major projects; and (iii) modernization of the collaboration and communication system of the Ministry of Finance. The Bank has also undertaken actions to help strengthening the country's capacity in the fields of statistics, economic management, reform implementation and monitoring. Discussions are also underway for Bank contribution to modernization of the Public banks information systems.

5.1.3 The Bank has also approved a guarantee for a local leasing company to enable it to mobilize local resources and support the implementation of SMEs/SMIs investment programmes. However, the agreements related to this transaction have not yet been signed. Besides these operations, the Bank has acquired stakes in four regional investment funds involved in private sector operations in Algeria. They are: the Maghreb Private Equity Fund 2, ECP Arica Fund, AIG Infrastructure Fund and Argan Infrastructure Fund. Through these funds, the Bank indirectly supports private investment in Algeria. As at 30 June 2010, the investment of such funds in Algeria amounted to nearly USD 102 million. The Bank's share in these operations is estimated at approximately USD 13 million.

5.2. *Lessons Drawn from Previous Cooperation with the Bank*

The last review of Bank portfolio operations in Algeria, in November 2004, identified two main lessons to take into account for the orientation of future cooperation with the Bank. They concern particularly:

- (i) The need for a new orientation of cooperation between Algeria and the Bank to enhance the quality of Bank operations. Such new cooperation should henceforth be more focused on expertise-related technical assistance and private sector development support;
- (ii) More significant assistance as a "reforms support." Similar experiences in neighbouring countries - Morocco and Tunisia - notably regarding financial reforms and competitiveness could be shared and adapted to the Algerian situation.

5.3 *Cooperation with the Bretton Woods Institutions and the European Union*

5.3.1 Since 2004, most of World Bank (WB) and International Monetary Fund (IMF) activities are focused on analytical work and technical assistance. The latest World Bank project on *the modernization of the budgetary system* was concluded in February 2009. World Bank technical assistance operations, totalling USD 2 million, mainly concerned the establishment of a credit bureau, public expenditure review, and preparation of policy papers on the labour market and foreign trade diversification. However, cooperation between the World Bank and Algeria has been revived: the Boards of Directors of the World Bank approved in February 2011, a new Strategic Partnership Framework (SPF) 2011-2014 with Algeria, which hinges on the following three areas: (i) strengthening growth through diversification of the economy; (ii) promoting sustainable development and reducing regional disparities; and (iii) strengthening economic planning, monitoring/evaluation and decision-making institutions.

5.3.2 The International Monetary Fund (IMF) has no formal programme with Algeria. However, since February 2006, Algeria participates in the IMF General Data Dissemination System. IMF Article IV consultations are held regularly. They generally relate to the country's short- and medium-term policies and outlook, and are discussed by the Executive Board.

5.3.3 For its part, the European Union (EU) mainly offers Grants and intends to provide annual funding of approximately EUR 55 million over the period 2007-2013. As part of such cooperation, EU-Algeria partnership notably concerns modernization of the judicial system, strengthening of basic services, social sector support and environmental protection. Interventions of the European Union targeted, until 2009, improving the competitiveness of enterprises, agricultural sectors and rural development to support diversification of the economy. It also supported the modernization of the judiciary, the program of sanitation and treatment of wastewater and the implementation of health reform. Since 2010, the EU emphasizes the strengthening of the Algerian administration, through technical assistance operations to support the implementation of the Association Agreement and help achieving the objectives set within this framework.

5.4. Aid Coordination

Since Algeria hardly resorts to external funding for implementing its economic and social development programme, there is no formal aid coordination mechanism for the time being. However, as part of its mission to coordinate its member States cooperation programmes, the European Union Delegation in Algiers associates other development partners such as the Bank, the World Bank, UNDP, Canadian Cooperation and Japanese Cooperation in aid coordination. Ad hoc meetings are organized especially to consider the monitoring of the Accra Action Plan on Aid Effectiveness under the Paris Declaration.

VI. AREAS OF DIALOGUE

6.1 In line with the Government's reform programme priorities and taking into account the constraints that the Algerian economy is facing (see Section III), the areas where Algeria and the Bank plan to continue dialogue to strengthen their partnership are: (i) strengthening government capacity; (ii) private sector development; and (iii) regional integration. These areas of dialogue reflect lessons drawn from previous cooperation between the Bank and Algeria, and are consistent with the country's specific needs. Indeed, in agreement with the country, the new orientations of the Bank's operations in Algeria henceforth favour, since 2006, technical assistance activities and analytical work through economic and sector studies to support modernization of public administration and implementation of Government reforms. The proposed areas of dialogue are in line with the medium-term Bank strategy (2008-2012), which focuses on knowledge as a key factor of economic development of regional member countries.

6.2 However, it is worth noting that since Algeria is a middle-income country, the approach taken by the Bank, in line with its strategy for countries in this category, should be flexible and dynamic to enable it to adapt and respond to the Government's specific needs and priorities. Through this focused dialogue, the Bank can support Government efforts to lay the foundations for sustained, employment-generating growth capable of sustainably improving the living conditions of the population.

6.3 *Concerning capacity building for government services*, dialogue with Algeria will, among others, aim to consolidate and enhance the support that the Bank is already providing to different administrative structures, including CNED in particular, to improve reform design capacity as well as evaluation and implementation of major projects under the public investment programme. Dialogue will also address the possibility of developing a partnership to support Government efforts aimed at: (i) improving the efficiency of administrative services as concerns transparency and public finance management, particularly through the establishment of a medium-term expenditure framework; and (ii) supporting the structures responsible for the design and implementation of economic and financial policies and strategies. The Bank could finance assistance to support the implementation of reforms, mastery of macroeconomic management and economic information tools (statistics, forecasts, etc.) for the structures of the Ministry of Finance, the Central Bank and the Ministry of Forecasting and Statistics. This

component will also involve the implementation of targeted training programmes for the benefit of senior executives and young professionals working in the aforementioned structures.

6.4 With regard to *private sector development* support, collaboration between the Bank and Algeria will focus on two aspects: (i) improving the business environment, notably through the modernization of the Public banks information systems to enhance financial intermediation efficiency; and (ii) promoting SMEs/SMIs by supporting initiatives to encourage private sector participation in economic activity.

6.5 Concerning the first component, Algerian authorities, wishing that public banks meet international standards with respect to customer management, transparency, compliance with prudential standards, risk management, etc., requested Bank assistance to support the upgrade of the banks concerned. This bank information systems modernization process, which is currently under preparation, is crucial for private sector development in Algeria since its outcome will substantially improve financial intermediation quality, thus creating a more conducive environment for the development of private investment.

6.6 As regards the second component, Bank assistance could involve building the capacity of private sector support institutions (chambers of commerce, employer organizations, investment promotion agencies, etc.) through analytical work and technical assistance operations. The Bank will also continue exploring financing opportunities for private sector operations, which are currently affected by the regulatory provisions limiting recourse to external financing for local companies with investment projects. These provisions restrict the range of instruments that the Bank can use for direct funding of private sector operations in Algeria.

6.7 Furthermore, private sector promotion is an important means of diversifying the sources of economic growth. In this regard, with the World Bank consultation, the Bank could support the conduct of economic and sector work to assist reforms aimed at diversifying the productive base of the economy. The proposed studies will aim to strengthen the implementation of various sector strategies such as the agriculture, tourism development master plans, etc.

6.8 Meanwhile, the Algerian authorities and the Bank shall consider strengthening their partnership on issues of employment and social inclusion, which are also at the heart of the current Government's preoccupation. To this end, the Bank will support analytical studies to assist Algeria in facing the challenge of unemployment, particularly for youth. The objective is to establish an effective and targeted system of employment and inclusion, oriented towards business promotion and support of sectors with high potential for job creation.

6.9 With regard to *regional integration*, either in the Mediterranean region or with sub-Saharan Africa, the Bank and the Government intend to deepen the dialogue, particularly in the context of works underway to develop a Regional Integration Strategy Paper for North African countries. The dialogue will put particular emphasis on regional integration towards sub-Saharan countries (strengthening South-South cooperation). The Bank will continue also supporting regional integration initiatives, notably the organization of conferences and seminars on regional issues (trade facilitation, financial integration, etc.) and capacity building for various actors involved in the integration process (government services, employers, universities, etc.). Accordingly, the Bank will continue to invest in initiatives of regional scope and support private sector operations in Algeria. Furthermore, the coordination with the World Bank will continue as part of the study on trade facilitation and regional infrastructures for Maghreb countries.

Strategic Approach and Dialogue Instruments

6.10 ***The Bank's main objective in connection with the proposed thrust is to assist Algeria in implementing reforms and the public investment programme, through analytical work, knowledge improvement and sharing, institutional support, training and capacity building programmes.*** The Bank will also continue to explore the possibility of direct funding of private

sector operations. Within the context of the proposed approach, the Bank will, together with the Algerian authorities and economic operators, further forge a close working partnership. Since its inauguration in February 2010, the Bank's Field Office in Algiers plays a significant role in the development of this partnership. Its presence on the ground helps to intensify dialogue in order to improve its quality and level, with different stakeholders.

6.11 The analytical work will enable the Bank to acquire elements that can facilitate and foster the continuation of a dynamic and continuous dialogue on important issues for the country's development. It should also help to improve the understanding, by both the Bank and the authorities, of key development issues and challenges facing Algeria, as well as the essential aspects of certain reforms. It will further strengthen the visibility of the reforms and the capacity for their implementation. The Bank will maintain a selective approach to institutional support and capacity building operations.

6.12 *The Bank will rely primarily on the Technical Assistance Fund for Middle-Income Countries and other sector-specific funds (such as the African Water Facility, the Governance Fund, etc.), as well as contributions from the Government or the beneficiaries of its operations for implementation of the proposed cooperation.* Depending on the specific nature of each operation (case by case), the Bank will explore possibilities either of jointly financing with Government and other partners, sharing costs or having the Government assume total cost. Depending on the nature and specificity of each operation, the Bank will mobilize either internal expertise or high level international expertise. Private sector operations will be funded in accordance with the applicable Bank policies, procedures and rules.

VII. CONCLUSION AND RECOMMENDATION

7.1 Conclusion

7.1.1 In recent years, Algeria has displayed remarkable economic performance characterized by steady GDP growth and a stable macroeconomic framework. The country has thus made tangible progress in poverty reduction and modernization of economic and social infrastructure. These positive developments are assets to accelerate reforms in order to further carry the country forward on the path of progress.

7.1.2 In this regard, Algeria wishes to have the support of development partners, foremost among them the Bank, in strengthening institutional capacity, transfer of knowledge, and for analytical work. The raft of reforms and investments on which the authorities have embarked paves the way for a new form of cooperation. Through it, the Bank will pursue dialogue with Algeria in fields concerning the strengthening of government capacity, private sector promotion and regional integration.

7.2 Recommendation

In light of the foregoing, it is recommended that the Board approves this Dialogue Note.

Annex 1

Algeria: Dialogue Note Monitoring Framework 2011-2012

| Areas of Dialogue | Government Programme | Ongoing Bank Assistance | Cooperation Prospects |
|---|--|---|---|
| I. Public Administration Capacity Building Support | | | |
| 1- Strengthen public project monitoring and evaluation capacity | Budget Management Programme based on Government results | - CNED Support Project. | Speed up implementation of this project |
| 2- Train executives - CNED (budget programming); - Ministry of Finance (finance trades; Central Bank; Ministry of Forecasting and Statistics) | Budget Management Programme based on Government results. Banking and Financial Sector Reform Programme; Ministry of Finance Training Programme | - Technical assistance for the modernisation of Ministry of Finance Collaboration and Cooperation System - Technical Assistance for Capacity Building (Training Programme) | Training of CNED Executives. Support to the MF Banking Reform Monitoring Unit. Support for implementation of the Executive Training Programme. Support for establishment of macroeconomic management tools. |
| I. Private Sector Development Support. | | | |
| 1. Business environment support | Modernization of information systems in public banks Development of inter-bank payment facilities and electronic banking | - Technical assistance for the modernization of the information systems of the six public banks - Technical assistance for the development of electronic banking. | Support for the design of a modern information system for public banks Speed up the implementation of this project. |
| 2. Support for the promotion of public/private partnership | Partnerships already concluded with private operators. | | |
| 3. Diversification of growth sources | National economic diversification support policy | | Development of economic and sector work to support sector strategies. Support the National SME/SMI Advisory Board; Investment Loans Guarantee Fund; and the National Investment Development Agency (ANDI). Support ICT promotion for SMEs/SMIs. |
| III- Regional Integration | | | |
| 1- Support for regional economic integration. | Cooperation agreements in progress (Arab Maghreb Union (AMU), West African Economic and Monetary Union (WAEMU), Great Arab Free Trade Area (GAFTA), partnership with the European Union (EU) | Ongoing development of the Regional Integration in North Africa Assistance Strategy (RISP) | Dialogue under the Bank's regional integration strategy |

Macroeconomic Indicators

| Indicators | Unit | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 (e) |
|--|-------------|---------|--------|--------|--------|--------|----------|----------|
| National Accounts | | | | | | | | |
| GDP at current prices | DZD billion | 6 150.4 | 7562 | 8514.8 | 9362.7 | 1106. | 10 017.5 | 11689.8 |
| GDP at current prices | USD billion | 85.1 | 103 | 116.1 | 135.7 | 170 | 140.9 | 159 |
| GDP per capita | USD. | 2 290 | 2 720 | 3 110 | 3 610 | 4 971 | 4 037 | 4466 |
| Population | million | 32.3 | 32.8 | 33.3 | 33.8 | 34.2 | 34.9 | 35.6 |
| GDP growth in real terms | % | 5.2 | 5.1 | 2.0 | 3.0 | 2.4 | 2.4 | 3.5 |
| Prices and Money | | | | | | | | |
| Inflation (CPI) | % | 3.5 | 1.6 | 2.5 | 3.5 | 4.5 | 5.7 | 4.1 |
| Exchange rate (annual average) | DA/ USD | 72.1 | 73.3 | 72.6 | 69.3 | 64.7 | 72.7 | 735 |
| Money supply (annual variation) (M2) | % | 10.5 | 11.7 | 18.6 | 24.2 | 16 | 3.2 | - |
| Liquidity ratio (M2/GDP) | % | 59.3 | 53.8 | 56.7 | 64.4 | 63.3 | 71.6 | - |
| Total credit to the economy, annual var. | % | 11.2 | 15.9 | 7.1 | 15.7 | 18.6 | 18 | - |
| Public Finance | | | | | | | | |
| Total budget revenue and donations | DA billion | 2229.7 | 3082.6 | 3639.8 | 3687.8 | 5190.5 | 3672.6 | 4360 |
| Total budgetary expenditure | DA billion | 1891.8 | 2052 | 2453 | 3108.5 | 4191 | 4214.5 | 4874 |
| Budget balance | DA billion | 337.9 | 1030.6 | 1186.8 | 579.3 | 999.5 | -541.5 | -514 |
| Overall balance | DA billion | 436 | 896.4 | 1150.6 | 456.8 | 906.9 | -668.8 | -453 |
| Total revenue and donations | % of GDP | 36.3 | 40.8 | 42.7 | 39.4 | 46.9 | 36.7 | 37.3 |
| Total expenditure and net loans | % of GDP | 30.8 | 27.1 | 28.8 | 34.8 | 39 | 43.6 | 41.7 |
| Deficit (-) / Overall surplus (+) | % of GDP | 7.1 | 11.9 | 13.5 | 11.4 | 6.0 | -6.9 | -4.4 |
| External sector | | | | | | | | |
| Total imports (fob) | USD million | 17954 | 19857 | 20681 | 26348 | 39479 | 39297 | 4021 |
| Total exports (fob) | USD million | 32217 | 46334 | 54741 | 60590 | 79120 | 45477 | 5666 |
| Trade balance | USD million | 14263 | 26477 | 34060 | 34242 | 39641 | 6180 | 1645 |
| Current account balance | USD billion | 11.1 | 21.1 | 28.9 | 30.5 | 34.5 | 0.5 | 2.1 |
| Current account balance | % of GDP | 13.1 | 20.5 | 24.9 | 22.5 | 20.3 | 0.4 | 5.5 |
| Debt and Financial Flows | | | | | | | | |
| Total medium- and long-term loans | USD million | 21411 | 16485 | 5062 | 4889 | 4282 | 3921 | - |
| Total external debt | USD million | 21821 | 17192 | 5612 | 5606 | 5586 | 5413 | - |
| Total external debt | % of GDP | 25.6 | 16.7 | 4.8 | 3.8 | 2.6 | 2.7 | - |
| Total domestic public debt | DA billion | 1000 | 1038.9 | 1847.3 | 1103.9 | 734 | 814 | - |

Sources: Ministry of Finance; Bank of Algeria (2009 Annual Report); *Office National de la Statistique* and estimates

(e) Estimates

Development Indicators

BD

| Social Indicators | Algeria | #REF! | Africa | Developing countries |
|--|----------------|-------------|-------------|----------------------|
| | 1990 | 2009 * | | |
| Surface Area (000 Km ²) | 2 382 | | 30 323 | 80 976 |
| Total Population (million) | 25.3 | 34.9 | 1 008.4 | 5 628.5 |
| Annual Population Growth Rate (%) | 2.5 | 1.5 | 2.3 | 1.3 |
| Life expectancy at birth -Total (years) | 67.0 | 75.5 | 55.7 | 66.9 |
| Mortality rate, infant (per 1,000 live births)) | 58.8 | 29.3 | 80.0 | 49.9 |
| Physicians per 100,000 People | 94.2 | 92.9 | 42.9 | 78.0 |
| Births attended by skilled health staff (% of total) | ... | 95.2 | 50.5 | 63.4 |
| Immunization, measles (% of children aged 12-23-months) | 53.0 | 88.0 | 74.0 | 81.7 |
| School enrollment, primary (% gross) | 100.2 | 107.5 | 100.2 | 106.8 |
| Ratio of girls to boys in primary education (%) | 84.5 | 93.9 | 90.9 | 100.0 |
| Literacy rate, adult total (% of people ages 15 and above) | ... | 72.6 | 64.8 | 81.0 |
| Access to Safe Water (% of Population) | 94.0 | 83.0 | 64.0 | 84.0 |
| Access to Sanitation (% of Population) | 88.0 | 95.0 | 38.5 | 54.6 |
| Access to Sanitation (% of Population) | ... | 84 | n.a | n.a |
| Human Development index (HDI-1) (% of the population) | ... | 17.5 | 34.7 | ... |
| | Algeria | | | |
| Macroeconomic indicators | 2000 | 2007 | 2008 | 2009** |
| GNI per capita, Atlas method (current USD) | 1 610 | 3 630 | 4 260 | 4 420 |
| GDP (current million USD) | 54 796 | 135 711 | 168 114 | 137 059 |
| GDP growth (annual %) | 2.2 | 3 | 2.4 | 2.4 |
| Per capita GDP growth (annual %) | 0.8 | 1.5 | 0.9 | 0.7 |
| I Gross Domestic Investment (% of GDP) | 23.5 | 34.2 | 36.6 | 40.2 |
| Inflation (annual %) | -0.6 | 3.5 | 4.5 | 5.7 |
| Budget Ugetsurplus (% of GDP) | 9.7 | 11.4 | 6.0 | 6.9 |
| Trade, External Debt & Financial Flows | 2000 | 2007 | 2008 | 2009 |
| Export Growth, volume (%) | 7.6 | -1.9 | -3.0 | -2.5 |
| Import Growth, volume (%) | 1.7 | 13.7 | 27.6 | 19.2 |
| Terms of Trade (% change from previous year)) | 59.4 | 0.5 | 12.2 | -13.6 |
| Trade Balance (mn USD) | 12310.0 | 34108.4 | 38510.1 | 14266.8 |
| Trade balance (% of GDP) | 22.5 | 25.1 | 22.9 | 10.4 |
| Current Account (% of GDP) | 9150.0 | 30385.6 | 29510.1 | -4233.2 |
| Debt Service (% of Exports) | 16.7 | 22.5 | 20.3 | 0.4 |
| External Debt (% of GDP) | 20.3 | 2.4 | 1.8 | 2.5 |
| External Debt (% of GDP) | 46.1 | 3.8 | 2.6 | 2.7 |
| Net Total Inflows (mn USD) | 400.4 | 2117.9 | 255.0 | ... |
| Net Total Official Development Assistance (mn USD) | 200.9 | 390.2 | 316.0 | ... |
| Foreign Direct Investment Inflows (mn USD) | 438.0 | 1661.6 | 2646.0 | 2846.5 |
| External reserves (in month of imports) | 9.7 | 25.2 | 34.9 | 35.9 |
| Private Sector Development & Infrastructure | 2000 | 2005 | 2009 | 2010 |
| Time required to start a business (days) | ... | 24 | 24 | 24 |
| Investor Protection Index (0-10) | ... | 5.3 | 5.3 | 5.3 |
| Main Telephone Lines (per 1000 people) | 57.7 | 78.3 | 96.4 | 96.4 |
| Internet users (000.) | 2.8 | 415.8 | 927.2 | 927.2 |
| Roads paved (% of total roads) | ... | ... | ... | ... |
| Railways, goods transported (million ton-km) | - | 1980 | 1471 | ... |

Source: ADB Statistics Department based on

Various national and international sources

*Most recent year

Last update:
November

2010

Annex 4

List of Bank-Approved Projects in Algeria (1971-2010)

| | PROJECT NAME | DATE OF APPROVAL | CLOSING DATE | AMOUNT APPROVED (UA) | AMOUNT APPROVED (USD) |
|--|---|------------------|--------------|----------------------|-----------------------|
| Sector: Agriculture | | | | | |
| 1 | BOU-NAMOUSA I | 23/03/1971 | 31/12/1975 | 3 000 000 | 4 710 000 |
| 2 | BOU NAMOUSSA II | 06/11/1973 | 31/03/1981 | 240 000 | 376 800 |
| 3 | POULTRY DEVELOPMENT PROGRAMME | 14/12/1987 | 31/12/1997 | 96 800 000 | 151 976 000 |
| 4 | MOYEN CHELIFF IRRIGATION DEVELOP. | 18/04/1989 | 31/12/1998 | 68 160 000 | 107 011 200 |
| 5 | REHABILITATION OF HABRA IRRIGATED AREA | 05/01/1993 | 30/06/1995 | 690 789 | 1 084 539 |
| 6 | SIDI BEN TAIBA IRRIGATION DAM | 31/08/1993 | 31/12/2003 | 50 600 000 | 79 442 000 |
| | Total: Agriculture | | | 219 490 789 | 344 600 539 |
| Sector: Industry/Mines | | | | | |
| 7 | MANUFACTURE OF AGRICULTURAL EQUIPMENT | 14/12/1987 | - | - | - |
| 8 | INSTI. SUPPORT POULTRY TECHNO. DEV. CENTRE | 27/01/1992 | 30/06/1994 | 1 446 052 | 2 270 302 |
| | Total: Industry/Mines | | | 1 446 052 | 2 270 302 |
| Sector: Infrastructure | | | | | |
| Subsector: Transport | | | | | |
| 9 | EL GOLEA – INSALAH ROAD | 21/07/1971 | 31/12/1974 | 3 000 000 | 4 710 000 |
| 10 | AIR ALGERIA MAINTENANCE BASE | 18/09/1989 | 30/10/2003 | 40 170 000 | 63 066 900 |
| 11 | CONSTRUCTION OF EL ACHIR NEW TUNNEL (I) | 17/06/1991 | 30/04/2002 | 49 080 000 | 77 055 600 |
| 12 | ROAD STRENGTHENING | 25/03/1992 | 31/12/1999 | 36 000 000 | 56 520 000 |
| 13 | EQUIPMENT OF DJEN-DJEN PORT | 24/11/1993 | 31/03/2001 | 21 800 000 | 34 226 000 |
| 14 | CONSTANTINE HIGHWAY | 22/11/1995 | 30/06/2003 | 25 750 000 | 40 427 500 |
| 15 | CONSTRUCTION OF EL ACHIR NEW TUNNEL (II) | 20/11/2000 | 31/12/2003 | 27 950 000 | 43 881 500 |
| 16 | CONSTANTINE HIGHWAY LOOP ROAD | 04/12/2002 | 31/12/2007 | 76 850 000 | 120 654 500 |
| | Total: Transport | | | 280 600 000 | 440 542 000 |
| Subsector: Water and Sanitation | | | | | |
| 17 | CONSTRUCTION OF KOUDIAT ACERDOUNE DAM | 31/08/1993 | 31/12/2001 | 106 400 000 | 167 048 000 |
| 18 | SIDI BEL ABBES WATER SUPPLY | 09/12/1998 | 30/06/2006 | 70 040 000 | 109 962 800 |
| 19 | KOUDIAT.AC ROLLER COMPACTED CONCRETE DAM | 04/10/2000 | 31/12/2005 | 87 480 000 | 137 343 600 |
| | Total: Water and Sanitation | | | 263 920 000 | 414 354 400 |
| Subsector: Energy | | | | | |
| 20 | SONELGAZ I | 10/02/1976 | 31/12/1977 | 5 000 000 | 7 850 000 |
| 21 | SONELGAZ II | 28/12/1977 | 31/12/1988 | 5 000 000 | 7 850 000 |
| 22 | SONELGAZ III | 22/08/1978 | 31/12/1994 | 5 000 000 | 7 850 000 |
| 23 | ELECTRICITY PROJECT IV | 20/09/1994 | 30/06/2001 | 57 700 000 | 90 589 000 |
| 24 | GAS TRANSPORTATION AND DISTRIBUTION PROJECT | 08/07/1998 | 30/09/2005 | 150 610 000 | 236 457 700 |
| | Total : Energy | | | 223 310 000 | 350 596 700 |
| Subsector: Telecommunications | | | | | |
| 25 | TELECOM. SECTOR SUPPORT PROJECT | 03/07/2002 | 31/12/2007 | 120 313 000 | 188 891 410 |
| | Total: Telecommunications | | | 120 313 000 | 188 891 410 |
| Sector : Finance | | | | | |
| 26 | AGRICULTURAL LINE OF CREDIT | 22/12/1986 | 31/12/1994 | 60 000 000 | 94 200 000 |

| | | | | | |
|----|---|------------|------------|----------------------|----------------------|
| 27 | INDUSTRY AND TOURISM LINE OF CREDIT | 23/08/1988 | 30/06/1995 | 40 000 000 | 62 800 000 |
| 28 | LINE OF CREDIT TO CREDIT POPULAIRE D'ALGERIE II | 10/12/1996 | 30/06/2001 | 100 000 000 | 157 000 000 |
| 29 | SECOND AGRICULTURAL LINE OF CREDIT TO BADR | 07/07/1999 | 31/12/2003 | 102 000 000 | 160 140 000 |
| 30 | SECOND AGRICULTURAL LINE OF CREDIT TO BADR | 07/07/1999 | 31/12/2004 | 105 000 000 | 164 850 000 |
| 31 | ELECTRONIC BANKING DEVELOPMENT TECHNICAL ASSISTANCE PROJECT | 07/11/2007 | 31/12/2010 | 494 800 | 776 836 |
| 32 | MAGHREB LEASING ALGERIA | 22/04/2009 | | 5 340 739 | 8 384 960 |
| | Total: Finance | | | 412 835 539 | 648 151 796 |
| | Sector: Social Sector | | | | |
| 33 | TECHNICAL EDUCATION STRENGTHENING | 18/12/1989 | 30/09/2000 | 81 000 000 | 127 170 000 |
| 34 | TECHNICAL EDUCATION STRENGTHENING (LOAN) | 18/12/1989 | 30/09/2000 | 607 894 | 954 394 |
| | Total: Social Sector | | | 81 607 894 | 128 124 394 |
| | Sector: Multi-Sector | | | | |
| 35 | ECONOMIC REFORM SUPPORT LOAN | 17/04/1990 | 30/06/1994 | 150 000 000 | 235 500 000 |
| 36 | EXTERNAL TRADE ADJUSTMENT PROGRAMME | 24/06/1992 | 30/06/1997 | 150 000 000 | 235 500 000 |
| 37 | STRUCTURAL ADJUSTMENT PROGRAMME | 10/12/1996 | 31/12/1999 | 150 000 000 | 235 500 000 |
| 38 | TA-MODERN. COLLABO. SYST, COMM. TO FINANCE | 20/07/2009 | 31/12/2013 | 496 500 | 779 505 |
| 39 | TECHNICAL ASSISTANCE TO CNED | 22/05/2007 | 30/06/2010 | 600 000 | 942 000 |
| | Total: Multi-Sector | | | 451 096 500 | 708 221 505 |
| | Grand Total | | | 2 054 619 774 | 3 225 753 045 |

Investment and Trade Regulation Measures Taken Between 2008 and 2010***1. Investment Measures***

- ✓ Requirement for all foreign investors undertaking projects in Algeria to have Algerian partners; the foreign investors may not hold more than 49% of the share capital;
- ✓ Introduction of a State pre-emptive right for any disposal of assets held by foreign investors;
- ✓ Requirement for any foreign company bidding for a public procurement to pledge to invest in partnership with a local company;
- ✓ Introduction of the possibility for the State to take over the assets transferred as part of privatization, where the transferee fails to fulfil its obligations, especially concerning payment;
- ✓ Prohibition to assign intangible property recovered or nationalized by the State to foreigners;
- ✓ Authorization to import refurbished production lines in order to encourage local investment and relocation of activities to Algeria by foreign investors;
- ✓ Provision of State guarantee for bank loans granted to strategic public companies as part of their modernization investments, and payment by the State of interest on such loans during deferred payment periods.

2. Trade Regulation Measures

- ✓ Ban on consumer loans other than real estate loans;
- ✓ Requirement to use documentary credit for import financing, except for small- and medium-scale enterprises (SMEs) importing spare parts or inputs to a maximum of two million dinars per year;
- ✓ Requirement for foreign importers confined to resale goods as they are to divest at least 30% of capital to national operators.

Review of Achievement of the Millennium Development Goals

| Goals and Indicators | 2001 | 2005 | 2009 | Status of Achievement of the Goal |
|--|--|-------|-------|--|
| 1. Eradicate extreme poverty and hunger | <i>Goal in 2015: Halve the proportion of the population living on less than one (1) dollar a day</i> | | | Achieved Poverty has been reduced, from 1.7% in 1990 to 0.5 in 2009 |
| Incidence of poverty | ..... | ..... | ..... |  |
| Incidence of extreme poverty | ..... | ..... | ..... |  |
| Prevalence of children victims of malnutrition (% of children under 5 years) | | | | |
| 2. Achieve universal primary education I | <i>Goal in 2015: Give all children, both boys and girls, the means to complete primary school</i> | | | Achieved School enrolment rate for children aged six years has risen from 93% in 1990 to 97.96% in 2009 |
| Net primary literacy rate (%) | 93.8 | 96.6 | 97.9 | |
| Literacy rate 15 - 24 years (%) | | | | |
| 3. Promote gender equality and empower women | <i>Goal in 2015: Eliminate gender disparity at all school levels</i> | | | Achievable Ensure gender mainstreaming of national programmes and improve human development indicators |
| Girls-boys ratio at primary school | 92.0 | 92.7 | 93.9 | |
| Girls-boys ratio at secondary school | ..... | ..... | 57.9 | |
| Men and women literacy ratio (ages 15-24 years) | ..... | ..... | ..... |  |
| 4. Reduce child mortality rates | <i>Goal in 2015: Reduce the 1990 under-5 and infant mortality rate by 2/3 and 1/2 respectively</i> | | | Achievable |
| Mortality rate below the age of 5 (per 1 000) | 43.8 | 36.5 | 14.2 | |
| Infant mortality rate (per 1000 live births) | 40.1 | 33.9 | 29.2 | |
| 5. Improve maternal health | <i>Goal in 2015: Reduce the 1990 maternal mortality rate by 3/4</i> | | | Achievable |
| Maternal mortality rate (per 100 000) | 47.3 | 180.0 | 86.2 | |
| Proportion of births attended by trained health personnel | 95.9 | 95.2 | 97.2 | |
| 6. Combat HIV/AIDS, malaria and other diseases | <i>Goal in 2015: Reverse the current HIV/AIDS trend</i> | | | Achievable The number of malaria cases dropped to 92 in 2009, including 88 imported cases, compared to 152 in 1990, including 109 imported cases. Malaria-related mortality is 0 per 100 000 |
| HIV/AIDS prevalence rate (% of population aged 15-49) | 0.1 | 0.1 | 0.1 | |
| Incidence of tuberculosis (per 100 000 persons) | 49 | 54 | ..... |  |
| 7. Ensure environmental sustainability | <i>Goal in 2015: Increase access rate by 3/4 for water and by 2/3 for sanitation</i> | | | Achievable |
| Access to safe drinking water (% population) | 87 | 85 | 95 | |
| Access to sanitation (% population) | 92 | 92 | 93 | |
| 8. Establishment of a global partnership for development | <i>Goal in 2015: life expectancy</i> <i>Life expectancy exceeds 60 years</i> | | | Achievable Several measures have been initiated to establish a multilateral commercial and financial system and address the specific needs of the least developed countries (financial assistance, scholarships, food and medical aid, etc). |