

AFRICAN DEVELOPMENT BANK



PEOPLE'S DEMOCRATIC REPUBLIC OF ALGERIA

**COMBINED 2011-2012 DIALOGUE NOTE COMPLETION REPORT
AND COUNTRY PORTFOLIO PERFORMANCE REVIEW**

REGIONAL DEPARTMENT NORTH II – ORNB

November 2012

**ALGERIA : COMBINED 2011-2012 DIALOGUE NOTE COMPLETION REPORT
AND COUNTRY PORTFOLIO PERFORMANCE REVIEW**

Appraisal Team	Nono Matondo-Fundani	Regional Director	ORNB	2054
	Assitan Diarra-Thioune	Resident Representative	DZFO	7100
	Catherine Baumont-Keita	Lead Economist	ORNB	2341
	Robert Kossi Eguida	Principal Economist	DZFO	7118
	Malek Bouzgarrou	Operations Officer	ORNB	2570
	Tarik Benbahmed	Macroeconomist	DZFO	7122
	Saida Benchouk-Issaad	Procurement Officer	DZFO	7104
Aissatou Ba	Principal Technical Assistant (FAPA)	OPSM	2930	
Peer Reviewers	Ferdinand Bakoup	Lead Economist,	ORWA	2449
	Abdourahmane Diaw	Chief Country Programme Officer	ORCE	2580
	Marcellin Ndong Ntah	Chief Operations Officer,	OPSC	2724
	Pascal Yembiline	Principal Economist	GAFO	6601

TABLE OF CONTENTS

ACRONYMS AND ABBREVIATIONS	iii
EXECUTIVE SUMMARY	iv
I. INTRODUCTION	1
II. RECENT DEVELOPMENTS	1
2.1 Political Developments	1
2.2 Recent Economic Developments	2
2.3 Social Trends	4
III. IMPLEMENTATION AND OUTCOMES OF THE DIALOGUE NOTE	4
3.1 Bank Group Resource Allocation for Algeria	4
3.2 Status of Dialogue Note Deliverables	5
3.3 Other Outcomes of the Note: Enhancement of Country Dialogue.	7
3.4 Coordination of Development Technical Assistance in Algeria	8
IV. COUNTRY PORTFOLIO PERFORMANCE REVIEW	9
4.1 Ongoing Bank Group Portfolio	9
4.2 Portfolio Monitoring and Evaluation	11
4.3 Implementation Status of the Country Portfolio Improvement Plan	13
4.4 Bank Group Performance	14
4.5 Country Performance Results based on the Portfolio Quality Questionnaire	14
4.6 Meetings with Stakeholders	14
4.7 Revised Country Portfolio Improvement Plan (CPIP)	15
V. EXPERIENCE AND LESSONS	15
VI. CONCLUSION AND RECOMMENDATIONS	16
6.1 Conclusion	16
6.2 Recommendations	16

ANNEXES

Annex 1: Macroeconomic Indicators

Annex 2: Developments Indicators

Annex 3: Review of Progress towards achieving the Millennium Development Goals.

Annex 4: List of on-going projects in Algeria

Annex 5: Country Portfolio Improvement Plan (CPIP)

This report was prepared following the Dialogue Note Completion and the Country Portfolio Performance Review (CPCR) Mission to Algeria from 24 to 30 September 2012. The mission was led by Ms. Assitan Diarra-Thioune, Bank Resident Representative in Algeria (DZFO), and Messrs. Kossi Robert Egida, Principal Economist, Algeria Field Office (DZFO), Malek Bouzgarrou, Operations Officer, Department of Operations North Africa II Region (ORNB), Tarik Benbahmed, Macroeconomist (DZFO); and Mrs Aissatou Ba, Principal Technical Assistant responsible for Coordinating FAPA Trust Fund, Private Sector Department (OPSM1), and Mrs. Saida Benchouk-Issaad, Procurement Officer (ORPF/DZFO)

ABBREVIATIONS AND ACRONYMS

ADB	:	African Development Bank
AFD	:	French Development Agency
AMA	:	Annual Meetings
CBD	:	Competitive Bidding Documents
CNED	:	National Development Equipment Fund
CODE	:	Committee on Operations and Development Effectiveness
CPIP	:	Country Portfolio Improvement Plan
CPO	:	Country Programme Officer
CPPR	:	Country Portfolio Performance Review
CS	:	Current status
CSP	:	Country Strategy Paper -
DGREFE	:	General Directorate of External Economic and Financial Relations
DO	:	Development Objectives
DZD	:	Algerian dinar
ENP	:	European Neighbourhood Policy
EPIC	:	Public industrial and commercial establishment (EPIC)
MIC	:	Middle-income country.
MoF	:	Ministry of Finance
MPEF	:	Maghreb Private Equity Fund
ODA	:	Official Development Assistance
PP	:	Problematic Project
PP	:	Procurement Plan
PPP	:	Potentially Problematic Project
RISP	:	Regional Integration Strategy Paper -
RMCR	:	Regional Member Country
SME	:	Small and Medium-sized Enterprises SMEs
TA	:	Technical Assistance
TFP	:	Technical and Financial Partner
ToR	:	Terms of reference
UA	:	Unit of Account
UNDP	:	United Nations Development Programme
USD	:	United States Dollar

CURRENCY EQUIVALENTS

(November 2012)

UA 1 = DZD 122
UA 1 = EUR 1.19
UA 1 = USD 1.54

EXECUTIVE SUMMARY

1. The 2011-2012 Dialogue Note for Algeria was approved by the Bank's Board of Directors in July 2011. It is the first cooperation framework document between the Bank and Algeria since the approval of the 2000-2002 Country Strategy Paper (ADB/BD/WP/2000/102/-Rev.1) in October 2000 and its update in June 2002 (ADB/DB/WP/2000/102/Rev.1/Add.1). Aligned with the country priorities, the three focus areas of cooperation are: (i) public administration capacity building; (ii) private sector development; and (iii) regional integration.
2. This report is based on the outcomes of the joint Bank-Government mission to assess the Dialogue Note implementation and the portfolio performance review, conducted from September 24 to 30 2012 in Algiers. It looks at recent developments in the country, assesses the relevance of the strategy and focus areas of cooperation between the Bank and Algeria, and reviews the country portfolio performance.
3. With regard to operationalization of the Dialogue Note, the report concludes that it is proceeding satisfactorily, on the whole. Over the period under review, funding applications were made for three new operations, two of which have ready been approved by the Bank, while the third is in the final processing phase. These operations are intended to support respectively capacity building, improvement of financial intermediation and the development of young agricultural entrepreneurs. The three earlier operations approved between 2007 and 2009 were revitalized. Finally, three new technical assistance operations were identified to support the promotion of small and medium-sized enterprises, the development of agribusiness hubs and the fight against desertification.
4. All these operations fall under the first two cooperation pillars and were funded by the Middle Income Countries Technical Assistance Fund (MIC-TAF). In addition, and in support of the private sector, the Bank, in 2011, made an equity investment in the *Maghreb Private Equity Fund 3* (MEFP III) - a regional Investment Fund - thus contributing to local private sector financing through the strengthening of equity capital. Under the third cooperation pillar relating to regional integration, preparation of the Regional Integration Strategy Paper (RISP) for North Africa, which was interrupted as a result of the events of the "Arab Spring", has resumed. This will make it possible to define the strategic direction of the Bank's intervention in the sub-region and deepen dialogue with the country on regional integration.
6. The report indicates that the Dialogue Note was also operationalized through sustained dialogue, led by the Bank Country Office in Algeria (DZFO), under the strategic direction of the Regional Department and the technical support of the other sector Departments of the Bank, whose efforts the Government would like to acknowledge and encourage. The dialogue has helped to generate new project ideas and paved the way for the provision of technical support for their implementation. The dialogue has also resulted in renewed interest in diversified funding sources, including the Fund for African Private Sector Assistance (FAPA) and the African Water Facility (AWF). Finally, two concept notes for studies on "*Diversification of Sources of Economic Growth in Algeria*" and on "*Inclusive Growth and Employment in Algeria*" were shared with the authorities.
7. Regarding the portfolio, the review found the performance moderately satisfactory, with an overall rating of 1.9 on a scale of 3. The Country Portfolio Improvement Plan (CPIP) was validated by the Government and the Bank. It will help to improve the implementation of the five on-going technical assistance operations, thus enhancing the overall portfolio performance.
8. This report is prepared and submitted to the Committee on Operations and Development Effectiveness (CODE) for consideration.

I. INTRODUCTION

1.1 The 2011-2012 Dialogue Note for Algeria was approved by the Bank's Board of Directors in July 2011. It is the first cooperation framework document governing the partnership between the Bank and Algeria, and the first of its kind since the approval of the 2000-2002 Country Strategy Paper (ADB/BD/WP/2000/102/-Rev.1) in October 2000 and its update in June 2002 (ADB/DB/WP/2000/102/Rev.1/Add.1). Aligned with country priorities as set out in the 2010-2014 Five-Year Plan, the focus of the Bank-Algeria cooperation, under the Dialogue Note, is on the following three areas: (i) *public administration capacity building*; (ii) *private sector development*; and (iii) *regional integration*, in the Mediterranean region and in sub-Saharan Africa.

1.2 This report was prepared following a joint Bank-Government mission to assess the Dialogue Note and the Country Portfolio Performance Review (CPPR), conducted from September 24 to 30 2012. It assesses the strategic alignment and the focal areas of the 2011-2012 Dialogue Note with country priorities and strategies, as well as the outcomes achieved in the context of more effective cooperation. The report assesses the performance of Bank-funded operations in Algeria, both in terms of efficiency in the implementation of programme activities and the relevance of operations to the targeted development objectives. The Country Portfolio Improvement Plan (CPIP), adopted jointly by the Government and the Bank, is one of the major outcomes of the review and will enhance the effectiveness of the resources mobilized for this cooperation.

1.3 In addition to this introduction, the report has five chapters, namely: (i) recent developments in the political, economic and social spheres in Algeria; (ii) implementation status of the Dialogue Note; (iii) portfolio performance review; (iv) lessons learned from the implementation of the Dialogue Note and portfolio management; and (v) conclusion and recommendations of the review.

II. RECENT DEVELOPMENTS

2.1 Political Developments

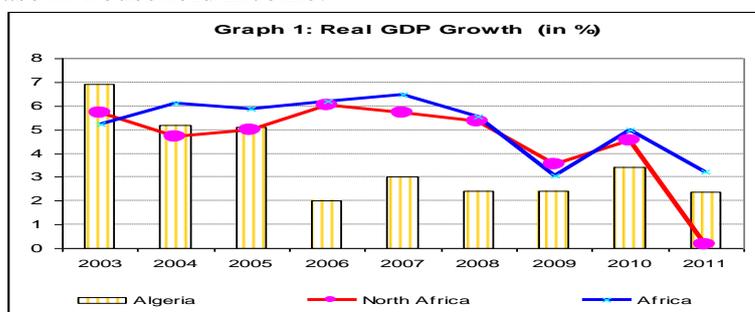
2.1.1 **Algeria continues to deepen the institutional reforms initiated in the first half of 2011.** The institutional reforms undertaken include: (i) the lifting of the state of emergency in February 2011 (that had been in force since 1992); (ii) the adoption of organic laws on political parties, the electoral code, women's representation in elected assemblies, and the media in April 2011; and (iii) the holding of parliamentary elections on 10 May 2012. The latter reforms were conducted satisfactorily, according to the reports of some 500 international observers, including European Union representatives, who were involved in elections in Algeria for the first time. The Presidential Alliance won these elections with an absolute majority of 276 seats out of the 462 at stake, broken down as follows: 208 seats for the National Liberation Front (FLN) and 68 for the National Democratic Rally (RND). Following these elections, the rate of women's representation in elected assemblies rose to 31.4% of the 462 parliamentary seats (compared with 8% in the wake of the 2007 legislative elections), marking a positive development towards strengthening the democratic process in Algeria. From 3 September 2012, the new Prime Minister heading the slightly reshuffled cabinet pushed through the People's National Assembly (APN) and the Council of the Nation, a new government action plan for continuing the implementation of the 2010-2014 Five-Year Plan. Local elections took place on 29 November 2012 which permitted to elect representatives of Communal Assemblies and Wilayas. Two-thirds of the members of the Council of the Nation (the equivalent of the Senate) are elected by universal suffrage from among these local elected representatives.

2.1.2 **At the regional level**, and in an effort to strengthen regional cooperation to ensure border security and combat terrorism, Algeria closely monitors developments in Libya and northern Mali.

2.2 Recent Economic Developments

2.2.1 **The sound performance of the Algerian economy was consolidated.** Average real gross domestic product (GDP) growth, estimated at 3.8% over the 2002-2011 period, is projected at 2.5%¹ and 3.4%, respectively in 2012 and 2013. Inflation, under control at 4.5% in 2011, rose in the first half of 2012 to an estimated 7.5%, owing to rising prices of food and manufactured products, resulting from the persistent malfunctioning of domestic markets for these items and inflationary expectations fueled by a substantial increase in household income.

In 2011, there was a fiscal deficit for the third consecutive year, estimated at 1.1% of GDP, while the current account surplus remained high, estimated at 9.3% of GDP in 2011. Official cumulative official foreign exchange reserves have increased over the years and totalled USD 193.7 billion at end-September 2012.



Source: Database of the ADB Department of Statistics

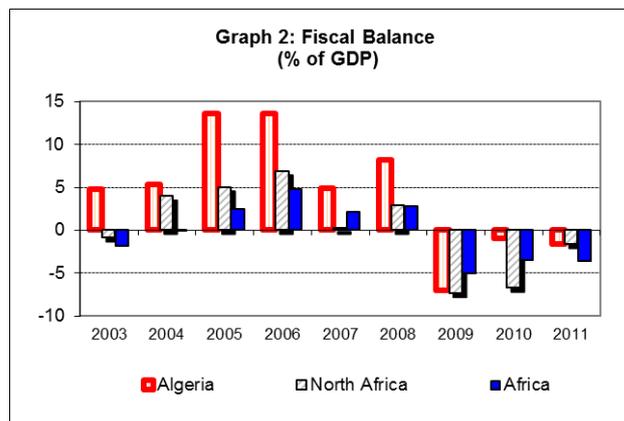
2.2.2 The growth of the Algerian economy is driven by: (i) an extensive public investment programme, carried out as part of the national strategy for the implementation of major anchor projects; (ii) domestic demand sustained by significant oil revenues; and (iii) external demand against the backdrop of high oil prices. Indeed, the oil sector still generated 98% of export earnings in Algeria, 70% of budget revenue and 36.7% of GDP in 2011, despite the downward trend in terms of production volume.

2.2.3 This heavy dependence of the economy on the oil sector is a potential source of vulnerability for the Algerian economy and points to the need to revamp the policies and programmes aimed at diversifying sources of growth in Algeria. Thus, following the implementation of the Agricultural and Rural Development Programme, tangible progress has been made and the agricultural sector experienced strong growth, estimated at 10.5% in 2011 and projected to rise to 14% in 2012. This agricultural sector performance resulted from the cumulative effect of abundant rainfall over the past two years, increase in yields and developed areas (extension of irrigated areas to about one million hectares) and the development of the dairy, meat and potato sub-sectors. The service sector has also contributed to non-oil growth, expanding by 6% in 2011. As for the manufacturing sector, it recorded a 2.2% growth, resulting more from the rebound in the activities of the sector's public enterprises. The construction sector, despite a decline in growth in 2011 (3%, compared to 8.9% in 2010), maintained its contribution to the GDP at 8.6%. In total, the growth of the non-oil sector was estimated at 5.2% in 2011.

2.2.4 ***There has been a fiscal deficit*** since 2009, despite the steady increase in revenue, due to high public spending levels. Indeed, a major public investment programme is underway and operating expenditure also remains high to take into account the higher salaries and allowances and contain social demand. However, the fiscal deficit is being contained, considering and narrowed to 1.1% of GDP in 2011 from 7.1% in 2009.

¹ According to the conclusions of the IMF mission that visited Algiers from 29 October to 11 November 2012, as part of the annual consultations under Article IV.

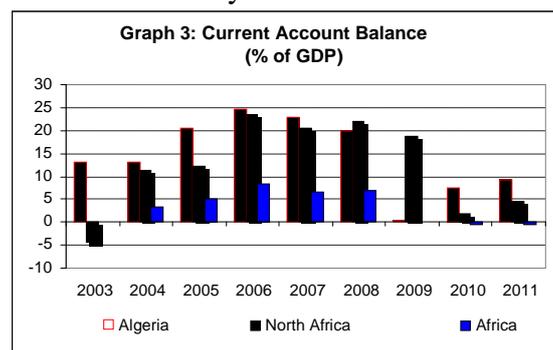
2.2.5 In 2011, budget expenditure increased by 28% in relation to 2010, while current transfers increased by 50%, particularly in support of purchasing power, job-creation and housing access. Also, personnel expenditure increased by 45% compared with 2010. Moreover, the sector Ministries are allowed great flexibility in the execution of their investment and equipment programmes under the 2010-2014 Five-Year Plan (USD 286 billion), especially as any gap created would be partly covered at the end of year by the Revenue Regulation Fund (FRR). In the short and



Source: Data Bank of the ADB Statistics Department

medium term, the sustainability of fiscal policy will depend on world oil and gas demand which, for the country, remains an exogenous variable. The projected trend is based on the assumption of stabilization and even a slight decline in this demand, with oil revenues which would account for about 25% of GDP in 2012 and 23% in 2013. Fiscal revenue rose by approximately 30% in 2011. Fiscal resources are derived mainly from oil taxes (70%) even though the ordinary tax registered a 17% increase in 2011.

2.2.6 **Algeria's external position remains strong.** After the substantial decline observed in 2009, the current account recorded some improvement and stood at 7.6% of GDP in 2010 and 9.3% of GDP in 2011 (and is projected at 5% of GDP in 2012). This trend is mainly due to the favourable trade balance, stemming from the high prices of oil per barrel in 2010 and 2011 (which reached an annual average of USD 113/barrel in 2011). Indeed, exports reported a 24% surge in 2011, with oil and gas revenue accounting for 98% of export earnings. Goods imports also recorded a positive annual variation of 15% in 2011, compared with 2010, mainly due to food imports, the variation of which was 62% over the same period. The capital account balance has been falling since 2009, as a result of the drop in net direct investment, mainly attributable to the country's significant investments abroad. In a context of very low



Source: Database of the ADB Statistics Department

external debt, the overall situation of the balance of payments remains positive, and has been so since 2006. Thus, it continues to fuel the country's official foreign exchange reserves. These reserves, estimated at approximately USD 193.7 billion at end-September 2012, represent more than three years of goods and services imports.

2.2.7 **As part of its debt reduction policy adopted since 2004, Algeria has opted for prudent debt management.** Medium- and long-term external debt accounted for 2.2% of GDP in 2011. The comfortable external financial position has enabled Algeria to considerably strengthen its external debt sustainability. The country is pursuing its policy of internalization of the financing of the economy as a result of the excess liquidity in the banking sector. In 2011, the total external debt stock dropped to USD 4.4 billion (from USD 5.6 billion at end-December 2010), due to the decrease in the medium- and long-term debt. However, the stock of domestic public debt rose from DZD 1.1 billion in 2010 to 1 214.6 billion in 2011. Domestic debt, which accounts for about 9% of GDP, consists of: (i) market debt which helps maintain the functioning of the country's bond market; and (ii) restructuring debt (55% of total) incurred to settle debts owed by public enterprises to the banking sector in an effort to revive productive potential. The latter is equivalent to debt-claims held by banks on the Treasury relating to the buyback of the non-performing loans of public banks as part

of the asset restructuring which the State carried out by issuing securities. The increase in this debt stock, and hence of domestic debt, could be interpreted as a decline in the performance of public banks in terms of their risk analysis and portfolio restructuring capacities.

2.2.8 *Algeria continues to implement structural reforms and development programmes in order to take full advantage of the encouraging trend in macroeconomic aggregates for over a decade and address the challenges it is facing.* These reforms include: (i) diversification of the sources of economic growth - a major challenge, given the heavy dependence of the economy on the oil and gas sector and the virtually constant fluctuations observed in the world oil and gas market; (ii) strengthening of political, economic and financial reforms with a view to stimulating the process of modernization of the economy and transition to a market economy, strengthening the process of democratization of the country's institutions, improving the business climate and enhancing financial intermediation; (iii) reduction of regional disparities - a challenge that the Government intends to address by revitalizing the local development policy, particularly by strengthening the decision-making powers of local elected officials in such areas as local planning and implementation of local development plans, as well as the ex-post evaluation of these plans; and (v) increase in the growth rate in order to create more jobs to reduce unemployment among young people, 22.4% of whom are job-seekers aged 15 to 24 years.

2.3 Social Trends

2.3.1 **On the social front, Algeria has made significant strides and is well on track to achieving the Millennium Development Goals (MDGs).** According to the 2011 UNDP Human Development Index (HDI), Algeria ranks 96th out of 181 countries. Algeria is ranked among medium human development countries with an HDI of 0.698. The country's Gross Domestic Product (GDP) per capita was estimated at more than USD 4 500 in 2011, compared with USD 1 610 in 2000. Absolute poverty declined, with the rate dropping from 1.7% of the population in 1990 to 0.5% in 2011. Generally, Algeria's health care and basic education access indicators appear satisfactory overall. Indeed, the proportion of the population with access to drinking water stands at 83%, while that of those with access to improved sanitation facilities is 95%. Life expectancy at birth increased from 71 years in 2000 to more than 74.5 years in 2011 (76.3 years for women and 72.8 years for men). Regarding education, the literacy rate is about 80% and education is compulsory for children aged 6 to 15 years.

2.3.2 **Despite these strides, Algeria is still faced with major challenges in the social sphere, particularly unemployment, especially youth unemployment, housing shortage and the quality of health care.** According to the survey by the National Office of Statistics (ONS 2011), unemployment affects about 10% of the workforce and 22.4% of Algerian youth aged 15 to 24 years, with significant gender disparities (19% for men and 38.1% for women). Overall, unemployment rate stands at 8.4% for men, compared with 17.2% for women.

III. IMPLEMENTATION AND OUTCOMES OF THE DIALOGUE NOTE

3.1 Bank Group Resource Allocation for Algeria

3.1.1 Algeria is one of the 14 countries eligible for financing under the ADB window. Until 2006, Algeria was one of the major borrowing countries of the Bank Group with a portfolio comprising 40 operations for a total commitment of UA 2.1 billion (approximately USD 3.2 billion). In 2006, the Government decided to suspend external borrowing, including from the Bank, and to make early repayment of its external debt owed to the ADB, amounting to nearly UA 1.4 billion (about USD 2 billion). This decision is part of an active debt management policy, made possible by the accumulation of huge foreign exchange reserves following the surge in world oil and gas prices.

3.1.2 As a result, the new strategic direction of the Bank-Algeria cooperation is currently capacity building, consultancy and analytical work. Thus, from 2007 to 2009, three operations were approved: the *National Development Equipment Institution (CNED) Technical Assistance Project*, the *Electronic Banking Development Project* and the *Project for the Modernization of the Collaboration and Communication System of the Ministry of Finance*, all of which have been evaluated in the review as active projects.

3.1.3 However, the Bank continues to compute Algeria's sustainable lending limit for ADB resources, which is an indicator of the volume of funding that the Bank keeps at a country's disposal for the purpose of meeting possible requests for the financing of public sector and private sector operations. This amount, which is based on the country-risk analysis and Algeria's economic and social situation, amounts, as at 2012, to UA 564 million per year. With the entry into force, in September 2009, of new regulations also restricting the use of external financing by local economic operators, the Bank has only grants and equity investments left as financial instruments adapted to the country context. As an illustration, in April 2009, the Bank approved a guarantee of UA 5.34 million for *Maghreb Leasing Algeria (MLA)*, a private enterprise governed by Algerian law, enabling this enterprise to raise resources from local banks to finance SMEs/SMIs. Following the cancellation of this operation, the ADB funding reserved for Algeria has not been used to-date.

3.2 Status of Dialogue Note Deliverables

3.2.1 The focus areas of the Bank-Algeria cooperation, namely (i) public administration capacity building; (ii) private sector development; and (iii) regional integration are aligned with national development priorities, as defined in the 2010-2014 Five-Year Plan , and consistent with the strategic direction of the cooperation between the Bank and Algeria which prioritizes technical assistance, consultancy, dialogue, analytical work and training.

Table 1
Approved Projects and Programmes Provided for Under 2011-2012 Dialogue Note

Projects	Financing Instruments	Amounts Approved in UA	Implementation Status	
Pillar 1: Public Administration Capacity Building Support				
1	MoF Capacity Building Programme	MIC Grant	497 000	Approved in November 2011. In progress.
2	Study on inclusive growth and employment	MIC Grant	400 000*	On-going dialogue, for the conduct of the study. Concept Note prepared by the Bank and submitted to the Government for validation in July 2012, in order to generate an application for the funding of the study.
3	Study on economic diversification	MIC Grant	300 000*	On-going dialogue, for the conduct of the study. Concept Note finalized by the Bank and the Sector Department and submitted to the Government for approval, in order to generate an application for the funding of the study.
Pillar 2: Private Sector Support.				
5	Project to Support the Supervision of the Implementation of Plans for the Modernization the Information Systems (IS) of Public Banks	MIC Grant	750 000	Approved by the President of the Bank on 17 August 2012. The grant Letter of Agreement is in preparation.
6	Capacity building project for the Ministry in charge of SMEs	MIC Grant	520 000*	Dialogue in progress. Technical dossier already prepared with Bank support. The Government's request for financing under MIC Funds has been submitted to the Bank. Start-up planned for 2013.
7	Assistance to support young agricultural entrepreneurs	MIC Grant	504 000*	Approved on December 2012. Start-up planned for 2013.
8	Equity investment in in the MPEF III Investment Fund	ADB – Private Sector Window	18 000 000	Equity investment approved in 2012. Five investments in 2012-2013 pipeline.
Pillar 3: Regional Integration				
9	Study "Unlocking North Africa's Potential Through Regional Integration"	Japanese Cooperation	80 000	Completed in 2011. Presentation workshop held on the fringes of the AMs in Arusha in June 2012.

*Indicative amount to be specified subsequently during the project appraisal

3.2.2 The first pillar gave fresh impetus to the three technical assistance projects that had been approved prior to the implementation of the Dialogue Note. Thus, *the CNED Technical Assistance Project* is at an advanced stage of implementation and has trained several professionals in modern project management techniques, covering the whole project cycle. The training was provided to professionals of the CNED and sector ministries. The technical assistance has helped increase the expertise of professionals in ex-post project monitoring and evaluation. In addition, with the introduction of the documents database, the technical assistance will provide the CNED, line ministries and contractors with an effective decision-making tool. The impact of this assistance will be measured by (i) the improvement in public sector governance; and (ii) the improvement in public spending efficiency. The projected achievements and impact of the other two operations, namely *the Electronic Banking Development Project in Algeria* and *the Project for the Modernization of the Communication and Collaboration System of the Ministry of Finance* will be measured through: (i)

the upgrade of internal communication system of the Ministry of Finance and all its decentralized entities, comprising a staff of approximately 60 000 employees; and (ii) the enhancement of the Algerian banking and financial sector by modernizing the payment systems.

3.2.3 In 2011, the *MoF Capacity Building Programme* was approved and its activities have started. Two studies: the study on *Growth and Employment in Algeria* and the study on *Diversification of Sources of Growth* are in the appraisal phase and will be financed from the resources of the Middle Income Countries Technical Assistance Funds (MIC TAF). The Concept Notes of the study have been prepared by the Bank Country Office to support dialogue on the development of SMEs/SMIs in Algeria and job creation and, generally, to support more inclusive growth. The key findings and recommendations will be helpful in decision-making and will enable the Bank to play its role as advisor to the authorities.

3.2.4 As part of the second pillar, the Bank had committed itself both to supporting the improvement of the business environment in order to diversify the sources of economic growth and to exploring opportunities for direct financing of private sector projects, now suffering as a result of the regulatory provisions restricting external borrowing by local enterprises (cf. § 3.1.3). Regarding the first component, the Bank identified three technical assistance operations, including the *Project to Support the Supervision of the Implementation of the Plans for the Modernization of the Information Systems (IS) of Public Banks*, which was approved in August 2012. The other two operations, namely (i) Project for the Capacity Building of the Ministry of Small and Medium-sized Enterprises; and (ii) Technical assistance project for young agricultural entrepreneurs, are also aimed at providing capacity building for better supporting the private sector. Regarding the financing component, the Bank, in 2011, made an equity investment in the *Maghreb Private Equity Fund 3 (MEFP III)* - a regional investment fund - which allows it to participate indirectly in the financing of the local private sector by strengthening the capital base of Algerian enterprises operating in the industry and services sector. As at 30 April 2012, the amount of investment approved for Algerian SMEs under this fund amounted to Eur 8 million.

3.2.5 Finally, under the third pillar the Bank began, in 2010, to prepare the Regional Integration Strategy Paper (RISP) for North Africa that was to be approved in 2011. The work was, however, interrupted in the wake of events of the “Arab Spring” which affected the different countries of the region, leading to major political changes. Despite this, the preparation of the document “*Unlocking the Potential of North Africa through Regional Integration*” was finalized in 2011. This document focuses on sectoral thematic notes (energy, infrastructure, trade facilitation, etc.) and serves as a basis to revive work on the RISP. The main findings and recommendations were presented to North African delegates in June 2012, at the Annual Meetings of the Bank in Arusha, Tanzania.

3.3 Other Outcomes of the Note: Enhancement of Country Dialogue

3.3.1 *There has been sustained dialogue between the Bank and Algeria with the General Directorate of External Economic and Financial Relations (DGREFE) of the MoF and sectoral ministries, the private sector and, to a lesser extent, with civil society organizations.* This dialogue has been strengthened since the opening of the Bank’s Country Office in Algeria (DZFO) in February 2010 and the approval of the 2011-2012 *Dialogue Note*. The dialogue consists in exchanging views on the country’s strategic direction and the reforms implemented, sharing the Bank’s position on the various national and continental thematic issues, supporting and encouraging the Government in its policy to diversify sources of economic growth and promote inclusive growth strategy. To this end, the concept notes for economic studies on these two themes which have been prepared and whose results are awaited, will guide the authorities in making decisions on the development of economic reforms.

3.3.2 ***Country dialogue has also been focused on project-related issues and overall portfolio performance.*** Working sessions are held regularly with project coordinators to review the status of operations, identify the difficulties and propose measures to address them. This dialogue was led by DZFO and received support, in particular, from the Bank's fiduciary services.

3.3.3 Regarding the private sector, given the regulations in force, the dialogue was mainly conducted with the National Advisory Board for the Promotion of SMEs (NAB/SME). This is an advisory body that has been under the oversight of the Ministry in charge of SMEs since December 2001, and includes professional associations and employers' organizations. It is tasked with ensuring: (i) dialogue and cooperation between public authorities and socio-economic partners for the development of SMEs and handicrafts; and (ii) collection of economic information from its members to assist in the formulation of policies and strategies for the development of the sector. The dialogue conducted by the Bank on this subject has helped to: (i) identify a technical assistance operation to build the capacity of the Ministry responsible for SMEs, as well as that of the National Investment Development Agency (ANDI) and the NAB/SME; and (ii) define the parameters of a study to support economic diversification, promotion of entrepreneurship and productive investment. The Government's request for financing under the MIC fund has just been submitted to the Bank.

3.4 Coordination of Development Technical Assistance in Algeria

3.4.1 Since Algeria rarely resorts to external funding for implementing its economic and social development programme, there is currently no formal mechanism for the overall coordination of the country's technical and financial partners (TFP) under the strategic guidance of the Government. The only formal coordination mechanisms set up and controlled by the Government were done so within the context of bilateral cooperation. However, TFP coordination meetings are organized with the joint support of the European Union and the United Nations Development Programme (UNDP), within the "*Effectiveness of Development Cooperation*" Working Group. The Bank, through DZFO, participates in these meetings which are attended, among others, by the World Bank and the French Development Agency. These meetings, held at least once every six months, provide an opportunity to review the implementation of activities and the status of the various partnership programmes with the authorities and the use of the technical assistance resources made available to Algeria for the purpose of strengthening the synergy and effectiveness of these resources.

3.4.2 At sector level, the Bank closely monitors the projects of other partners in Algeria and maintains dialogue with them on issues of common interest such as reforms for modernization of the public administration, private sector development and diversification of the sources of economic growth. To this end, DZFO attends meetings of multi-donor thematic groups focused on: "*Economic Development, Employment and Vocational Training*" and "*Water, Climate and Sanitation.*" DZFO may in the near future coordinate one of the thematic groups.

3.4.3 Algeria's technical and financial partners use these meetings as an opportunity to share their experiences on aspects of their cooperation that need to be strengthened in order to ensure greater effectiveness of development assistance. Indeed, in addition to the finalization of cooperation framework documents which takes an average of about one and a half months, the consultant recruitment process is another source of delay in the effective deployment of the cutting-edge expertise required. In fact, as far as the three partners (World Bank, European Union and World Bank) are concerned, there is an average time lapse of approximately 10 months between the date of requests for proposals for the recruitment of consultants/consulting firms and the actual signing of the related contracts, with Bank portfolio performance, however, recording delays slightly below the average. The actual disbursement of technical assistance resources also remains a major cooperation challenge.

3.4.4 Moreover, it is worth noting that the World Bank is involved in Algeria mainly within the context of reimbursable technical assistance. To this end and for any given operation, the World

Bank signs with the Government a contract for reimbursable consulting services or for non-remunerated assistance, funded from the World Bank’s own resources or from any other fiduciary fund under the Bank management. For reimbursable services, once they are delivered and approved by the Government, with the words “*Service provided*”, the reimbursements due. Currently, eight reimbursable technical assistance (RTA) projects, for a total amount of about USD 6.8 million, are committed by public authorities, under partnership, in particular with the Ministries of Agriculture and Rural Development, Environment, Social Affairs, Bank of Algeria and Algeria-Telecom. The initial partnership agreements, as set forth in the World Bank-Algeria Strategic Partnership Framework (SPF) for 2011-2014, approved in February 2011, were signed in March 2012 and approximately 20% of the expected services have been delivered so far. With regard to the European Union (EU), its involvement is mainly in the form of grants, with an annual funding of approximately Eur 55 million over the period 2007-2013. The table below shows the estimated time it takes some of Algeria’s technical and financial partners to finalize strategy papers, hire consulting firms and consultants.

Table 2
Indicators relating to TA Projects funded by a number of Algeria’s TFPs

No	Indicators/TFPs	ADB	World Bank ²	European Union
1	Timeframe for preparing Strategic Documents (Dialogue Note, Strategic Partnership Framework and National Indicative Programme Indicative)	18 months	24 months	18 months
2	Average timeframe for recruiting consultants (between the call for consultancy and the signing of the contract)	12 months	10 months	8,7 months
3	Average timeframe between the signing of the contract and the 1 st disbursement.	5 months ³	2 months	45 days

IV. COUNTRY PORTFOLIO PERFORMANCE REVIEW

4.1 Ongoing Bank Group Portfolio

4.1.1 *The Bank's portfolio in Algeria comprises five (5) operations totalling nearly UA 2.85 million, four of which are currently active.* The *Project to Support the Supervision of the Implementation of Plans for the Modernization the Information Systems (IS) of Public Banks* is not yet considered an active project, as it was approved only in August 2012 and the grant *Letter of Agreement* has not yet been signed. Thus, the active portfolio amounts to UA 2.1 million. It is composed exclusively of technical assistance operations financed from the resources of the Middle Income Countries Technical Assistance Fund (MIC-TAF).

4.1.2 *The portfolio structure reflects the new direction of the Bank-Algeria cooperation, which focuses primarily on capacity building and institutional support activities.* Since 2006, following Algeria’s decision to stop using external loans for the moment, cooperation now focuses on technical assistance, consultancy, training, capacity building, economic and sector studies and private sector development. The new direction thus reaffirms the Bank’s readiness to go beyond “*conventional*” interventions, in project financing, to meet the expressed needs of middle-income countries (MICs), including Algeria, for which strategic advice, training activities and analytical work have now become as important as the provision of financial resources.

² This concerns solely non-reimbursable technical assistance, and only one project in this category is operational. The World Bank portfolio includes mainly reimbursable technical assistance, relating to eight projects, for a total of USD 6.8 million.

³ The 1st disbursement is made after approval of the consultant’s report.

4.1.3 **The Ministry of Finance (MoF) is currently the largest recipient of Bank assistance.** Indeed, the *Project for the Modernization of the Communication and Collaboration System of the MoF*, the *MoF Capacity Building Programme* and *Electronic Banking Development Project in Algeria* are all executed by this Ministry. The *Project to Support the Supervision of the Implementation of Plans for the Modernization of the Information Systems (IS) of Public Banks* will also be implemented by the MoF. Finally, the *CNED Technical Assistance Project* is supporting the National Development Equipment Fund (CNED), which is a public industrial and commercial establishment (EPIC) under MoF supervision.

Table 3
Composition of the Bank's Active Portfolio in Algeria

Project Name	Approval Date	Signature Date	Effective Date	Amount Approved (UA)	Financing	Amount Disbursed	% Disbursed	Closing Date	Monitoring Indicators
PROJECTS									
Electronic Banking Development Project	31/11-2007	05/05/2008	05/05/2008	494 800	MIC	-	0%	31/12/2013	
CNED Technical Assistance Technical Project	22/05/2007	13/12/2007	13/12/2007	600 000	MIC	393 894	65.3 %	31/12/2012	
Project for the Modernisation of the Communication and Collaboration System of the MoF	31/07/2009	04/02/2010	04/02/2010	496 500	MIC	-	0%	31/12/2013	
MoF Capacity Building Programme	18/11/2011	25/06/2012	25/06/2012	497 000	MIC	-	0%	31/12/2013	
TOTAL				2.088.300		393.894	19%		

* Red: Project experiencing difficulties and requiring greater Bank monitoring; Orange: Project that needs to be supported by the Bank to ensure proper conduct of activities. Green: Project is advancing satisfactorily.

4.1.4 **The average age of the active portfolio is 3.5 years, which, in view of the nature of the operations, is considered quite high.** Given that the portfolio is composed solely of technical assistance operations, its implementation is supposed to last between 18 and 24 months. The increase in the average age of projects is due to long delays in project start-up, particularly in the start-up of the electronic banking development support operations, and to difficulties in recruiting cutting edge expertise for active projects as a whole. This has led the Bank to extend the closing date of the grants two and three times respectively.

4.1.5 **The breakdown of sector interventions indicates that public sector governance support, especially the modernization and enhancement of public sector efficiency, is the essential component of the current cooperation with Algeria.** Three of the four active operations are aimed at supporting the modernization of the Algerian administration. These are the *Project for the Modernization of Communication and Collaboration System the MoF*, the *MoF Capacity Building Programme* and the *CNED Technical Assistance Project*. As for the *Electronic Banking Development Project*, it is part of the support for the modernization of the financial sector. The same applies for the *Project to Support the Supervision of the Implementation of the Plans for the Modernization of the IS of Public Banks*. This breakdown reflects the Bank's commitment to supporting the major programme for economic reform and modernization of the administration launched by the Algerian authorities since the early 2000s. It is also in line with the priorities established by the *Dialogue Note*, especially the pillar entitled: "Strengthening the Capacity of the Administration," as well as the Bank's strategic guidelines as defined by the *Strategic Framework for Enhancing Bank Group Support to Middle Income Countries* (ADB/BD/WP/2008/71) and the *Governance Strategic Directions and Action Plan, 2008-2012* (ADB/BD/WP/2008/70)

4.2 Portfolio Monitoring and Evaluation

4.2.1 Portfolio Monitoring

4.2.1.1 The portfolio is monitored by the Bank's Country Office in Algiers (DZFO), duty station of the “Project Officer” who manages all the operations, under the strategic direction of the Regional Department and with technical support from other Bank Departments. The Algeria Country Team thus meets regularly to review projects submitted to the Bank for approval. These meetings have involved relevant Bank Departments in setting up operations and contributed significantly to improving the quality of interventions, particularly with regard to procurement and financial management issues. DZFO regularly participates in these meetings by video conference. Indeed, the two technical assistance projects approved since the operationalization of the Dialogue Note were identified by the Office and prepared following missions carried out by the Office, with the participation of departments such as the African Development Institute, OITC, OSGE and ORPF.

4.2.1.2 At the Office (DZFO), regular meetings are held with the General Directorate of External Economic and Financial Relations of the Ministry of Finance, as well as project coordinators to assess the progress of operations, identify problems and propose measures to address them. The Procurement Officer based at DZFO, regularly supports project coordinators on all procurement issues with a view to improving the portfolio. Thus, the “desk supervision” and the two annual supervision missions are led by DZFO. Generally, regular monitoring of on-going operations and the strengthening of dialogue with the country have led to the improvement of portfolio performance over the past two years, which, overall, remains comparable to that of development partners with missions similar to that of the Bank

4.2.1.3 Finally, the dialogue with the authorities led to the identification of new areas of cooperation other than those falling within the scope of intervention of the MoF alone, which is currently the largest recipient of Bank assistance in Algeria. These potential areas of cooperation are: Agriculture and Rural Development, and Promotion of SMEs, which could both be financed from the resources of the MIC Technical Assistance Fund. In addition to the MIC Fund, other funding sources available at the Bank were also brought to the country's attention, namely the Fund for African Private Sector Assistance (FAPA) and the African Water Facility (AWF). Therefore, potential areas of partnership with these funds were identified at the end of the mission, particularly for the development of industrial sub-contracting in Algeria and better management of water resources. In future, efforts will be made towards other ministries and public institutions (banks, public industrial and commercial establishments (EPIC)).

4.2.2 Portfolio Evaluation

4.2.2.1 *The new Guidelines for Country Portfolio Performance Review (CPPR) stipulate that only public sector operations shall be taken into account in calculating the portfolio performance rating.* In light of these guidelines, non-lending operations such as technical assistance should not be taken into account in the scoring. However, on account of the specific nature of Algeria's portfolio, which comprises only such operations, the Bank had to take the rating of these projects into account in evaluating the performance of operations.

4.2.2.2 *The overall portfolio score awarded on the basis of four projects currently on-going is 1.9 on a scale of 3 (see Table 3).* The average score for progress indicators (loan conditions, procurement of goods and services, financial performance, and activities and outcomes) is 1.6 and the score for “Development Objectives” (DO) is 2.2. The *Project to support the supervision of the implementation of plans for the modernization of the information systems (IS) in public banks* was

approved only in August 2012 and is not yet effective⁴, so this project could not be rated at this stage. The portfolio includes only one operation classified in the problem project (PP) category for operations scoring an average of less than 1.5 for the “Current Status” (CS) and “*Development Objective*” (DO) indicators. This operation is the *Electronic Banking Development Project* (which scored 1.3 for “Current Status” (CS). Table 3 below provides details on the rating of performance indicators by project. These ratings are those of the last supervision mission conducted in May 2012.

Table 4
Rating of Performance Indicators

	Grant Conditions	Procurement of Goods and Services	Financial Performance	Activities and Outcomes	Average Score for Progress (EA)	Dev. Objectives (DO).	Overall Rating
Electronic Banking Development Project	1	1	1.5	1.5	1.3	2	1.6
Project for the Modernization of the Communication and Collaboration System of the Ministry of Finance	1	2	1.5	1.5	1.5	2.5	2
CNED Technical Assistance Project	1	2	2.5	1.8	1.8	2.5	2.1
Project for the Capacity Building of the Ministry of Finance	2	2	n.a	2	2	2	2
Overall Portfolio Rating for 2012	1.3	1.7	1.8	1.7	1.6	2.2	1.9

4.2.2.3 The score for the “*Grant Conditions*” indicator (1.3) reflects the difficulties encountered by the project in fulfilling the general grant conditions within the specified timeframe. Under the rules governing the use of MIC funding, the grant *Letters of Agreement* become effective upon signature. The time lapse between the approval of the operations and their effectiveness is nearly four and a half (4.6) months. This period, which would be considered “short” for “*conventional*” projects, is relatively long for technical assistance operations whose implementation period is supposed to be between 18 and 24 months. The same applies for the fulfilment of conditions precedent to the first disbursement which suffered unusually long delays (an average of 32 months for all projects in the portfolio). The delays listed above were partly due to: (i) the inability of the Bank to closely monitor projects prior to the opening of its Country Office in Algeria; (ii) poor understanding of the operating mechanisms of the MIC Fund by project officials, particularly at approval of the initial projects in 2007; and (iii) bureaucratic red tape at the country level. As far as audit is concerned, none of the projects has produced an audit report, since no financial management arrangements were provided for in the initial documents (Memoranda of MIC Approval and Grant *Letters of Agreement*). Indeed, the old *Guidelines for the Administration and Utilization of Middle Income Country Technical Assistance Fund* (ADB/BD/WP/2005/90/Rev.1) made no provision for external audit. During the supervision mission in May 2012, the various project coordinators were notified that a financial management system would be set up to comply with the new Guidelines of the MIC TA Fund approved in February 2012. Two audits were recommended for each of the three projects active at the time and the resources were made available following a review of the list of goods and services of the previous projects. The 2010-2011 audit report relating to the CNED, scheduled to be available at end-November 2012, is currently under preparation. Concerning the *Capacity Building Programme for the MoF*, the audit-related provisions were specified right from the project appraisal phase.

4.2.2.4 The score of 1.7 for the “*Procurement of Goods and Services*” indicator highlights the procurement difficulties faced by projects. The *Electronic Banking Development* and *Modernization of the Communication and Collaboration System of the Ministry Finance (MoF)* Projects have encountered problems in mobilizing cutting-edge international expertise, so the call for consultancies had to be made twice for each of the projects. In addition, the project managers have still not developed or submitted a procurement plan despite Bank reminders.

⁴ The draft grant *Letter of Agreement* was transmitted to the authorities for consideration and signature

4.2.2.5 The “*Financial Performance*” indicator is rated at 1.8. The portfolio's average disbursement rate stands at 19% to date. The difficulties encountered by the projects in recruiting consultants largely explain the low overall disbursement rate. The only disbursements made were those intended for the *CNED Technical Assistance Project* for which a disbursement rate of 65.3% has been achieved. It should be noted that there are a number of activities whose implementation should lead to an upsurge in the overall disbursements rate by the first quarter of 2013. These include the completion of the remaining activities under the CNED project, the progress of those that have just started under the *Project for the Modernization of Communication and Collaboration System of the MoF* and the imminent signing of the contract with the firm selected for the *Electronic Banking Development Project*. In addition, the recruitment of a consultant for the *MoF Capacity Building Project* and the start of activities should also contribute significantly to improving the disbursement rate.

4.2.2.6 The score of 1.7 awarded to the “*Activities and Outputs*” indicator reflects the limited concrete achievements recorded by the active portfolio, with the exception of the *CNED Technical Assistance Project* which is advancing smoothly, and should be completed and closed by 31 December 2012. The activities of the *Project for the Modernization of Communication and Collaboration of the MoF* have also started effectively. Indeed, the Project contracted a consulting firm in June 2012, and has already submitted a first progress report which was approved by the Government. The Bank has also approved the report and is currently examining the first application for disbursement under this project. As for the *Electronic Banking Development Project*, it is still in the expertise recruitment phase in preparation for the start-up of activities. Institutional anchoring problems due to the restructuring of the MoF during the period 2007-2010 and the difficulty of mobilizing cutting-edge expertise have seriously disrupted the progress of the project.

4.2.2.7 The *development impact* of all the operations has been significant (with a rating 2.2), both in terms of improvement of public sector governance and modernization of the Algerian financial sector. With regard to support in building the capacity of the administration in the conduct of major projects, Bank assistance made it possible to substantially improve the efficiency of public spending. Experts from the CNED and other sector ministries fully understand the project cycle, the procurement process and the ex-post evaluation of the impact of these projects on the population. Moreover, the outcomes of other projects should help in guiding decision-making regarding the conduct of the broad range of reforms initiated in recent years. The *Project for the Modernization of Communication and Collaboration System of the MoF* will help improve information-sharing within the Ministry. In the short term, the 4 500 staff members at the head office of the Ministry will be able to log onto the communication and collaboration tool. The *Electronic Banking Development Project* aims to provide technical and organizational guidelines for modernizing payment systems in Algeria. Once completed, it will provide the authorities with a clear action plan for encouraging the widespread use electronic banking, which is one of the major thrusts of the on-going financial sector reform programme. Finally, the *MoF Capacity Building Programme* is part of the authorities' efforts to develop internal capacity for implementing reforms aimed at modernizing the Algerian economy, in order to provide the population with quality public services.

4.3 Implementation Status of the Country Portfolio Improvement Plan

4.3.1 Given that the review is the first since the one conducted in 2004, there is currently no operational Country Portfolio Improvement Plan (CPIP). The CPIP prepared for this review will therefore serve a baseline for progress evaluation during future reviews.

4.4 Bank Group Performance

4.4.1 This review shows that the performance of the Bank's operations in Algeria was influenced by a number of factors. Indeed, weaknesses were identified concerning project quality at entry, particularly for operations approved between 2007 and 2009. The procurement capacity of coordinators was not adequately assessed during the appraisal phase. Moreover, institutional and fiduciary arrangements were not specified. The absence of a project launching mission also led to delays in the start-up of operations, given that the coordinators were unfamiliar with Bank standard documents and unaware of operation implementation procedures.

4.4.2 Project performance was also affected by the coordinators' lack of familiarity with Bank rules and procedures and by the fact that these coordinators were not provided with a project team having the necessary expertise, especially in fiduciary matters. The projects also had difficulties in finding consulting firms with the required expertise and, as a result, had to issue calls for consultancy services several times over. This was due, among other factors, to the technical nature of the areas covered by the operations, requiring the use of highly specialized experts. In addition, long delays in contract negotiations between the government and the consulting firms selected were detrimental to the start-up of project activities.

4.5 Country Performance Results based on the Portfolio Quality Questionnaire

4.5.1 Responses to the *Questionnaire* on quality generally confirmed the established diagnosis. Lessons were also drawn that could help improve the structuring of future Bank operations in Algeria. The Algerian party welcomed the relevance of the approach adopted by the Bank and the appropriateness of the instruments which it used to implement the *Dialogue Note*, namely the MIC Fund. The limited number of qualified bidders, the relative "complexity" of the Bank's procurement rules and procedures and the lengthy delays in the signing of the *Letters of Agreement* and fulfilment of the conditions precedent to first disbursement were among the major weaknesses identified by coordinators. Improvement proposals focused on project monitoring/evaluation mechanisms which were seen as lacking clarity. Aspects relating to disbursements did not raise any particular comments, given that disbursements for all operations in Algeria have so far been by "*Direct Payment (DP)*", which is a relatively unproblematic payment method, adapted to the specific features of projects in the current portfolio. The same applies to financial management and audit since, at start-up, the projects had made no provision for these aspects.

4.6 Meetings with Stakeholders

4.6.1 In preparing the combined report of the completion of *Dialogue Note* 2011-2012 and the Country Portfolio Performance Review (CPPR), the Bank adopted a participatory approach. A dialogue mission led by DZFO was organized in Algiers from 24 to 30 September 2012. A broad consultation process involving ministries, institutions and public agencies, as well as development partners, was initiated during this mission. It comprised two phases: (i) a workshop attended by all Bank project coordinators, representatives of various ministries and other public institutions (Bank of Algeria, ANDI, etc.); and (ii) working sessions on Bank portfolio with representatives of the MoF and project coordinators.

4.6.2 During the workshop, Bank experts reiterated the strategic guidelines and the framework governing on-going cooperation between the Bank and Algeria, namely the 2011-2012 *Dialogue Note*, and presented the main outcomes achieved through its implementation, as well as the challenges that must be addressed in order to achieve the set objectives. In the discussions, it was apparent that the strategic directions guiding the Bank's intervention in Algeria, as set out in the *Dialogue Note*, are relevant and consistent with the country's priorities established in the different development plans and sector-based policies. They also meet the needs expressed by the beneficiaries. Thus, the Bank's approach, which consists in determining the areas of focus of its support in close cooperation with the

authorities, was deemed appropriate. In addition, the workshop afforded an opportunity to take stock of the overall portfolio performance. The various active operations of the Bank and their performance were thus reviewed against a set of indicators (procurement, financial management, status of project outputs, etc.). Exchanges with the participants offered an opportunity to discuss the challenges and identify guidelines for the structuring the Bank's future technical assistance operations in Algeria. Proposals to improve project implementation were made. For instance, it was suggested that multidisciplinary project teams be set up, that provision be systematically made for project launch missions and that support for beneficiaries be strengthened by Bank teams at all project phases.

4.6.3 Working sessions among the mission, the MoF and project coordinators afforded an opportunity to take stock of the overall portfolio performance, and discuss measures that could be adopted to improve the implementation of on-going operations. To this end, the Country Portfolio Improvement Plan (CPIP) was prepared, discussed and validated with all MoF representatives and project coordinators.

4.6.4 Finally, with regard to development partners (European Commission and World Bank), discussions focused essentially on their respective intervention strategies in Algeria and cooperation and partnership prospects, especially at sector level. Special interest was shown in the aspects relating to coordination, particularly within the framework of the work of the various "*thematic groups*".

4.7 Country Portfolio Improvement Plan

4.7.1 *At the end of the mission, a Country Portfolio Improvement Plan (CPIP) was adopted jointly by the Government and the Bank.* This Plan is the outcome of a participatory process, including working sessions held with members of the mission, officials of the Ministry of Finance and project coordinators. In addition to discussions with stakeholders, the CPIP preparation was based on the findings of the supervision mission conducted in May 2012, as well as responses to the *Questionnaire*.

4.7.2 The CPIP identified the main difficulties encountered by the projects at both institutional and fiduciary levels. The Plan includes a set of measures to be implemented following a precise schedule in order to remove obstacles to the smooth implementation of operations.

4.7.3 These measures focused primarily on aspects relating to project design, procurement, financial management and monitoring and evaluation of projects. The plan laid special emphasis on measures relating to the quality of operations at entry. The measures stem from lessons learned from previous operations and aim to better organize future projects and improve performance. They are therefore particularly important, especially in view of strengthening the partnership between the Bank and Algeria and the gradual extension of interventions to new actors (institutions and enterprises, offices, regulators, etc.) and sectors (agriculture, SMEs, water and sanitation, etc.).

4.7.4 The CPIP prepared as part of this review will service as a reference for future reviews to assess progress made.

V. EXPERIENCE AND LESSONS

- Consultation with the authorities made it possible to effectively identify the needs and priorities of the Government in order to better direct the Bank's intervention in Algeria;
- Restricting Bank support for the various Government reform programmes to technical assistance limits somewhat the impact of the Institution's intervention in Algeria and its capacity to support the agenda of the authorities;

- Good quality of interventions at entry and the formation, from the start-up point, of project teams with the required technical and administrative profiles, are the essential prerequisites for proper implementation of technical assistance operations;
- The presence on the spot of the Bank's Country Office has helped to boost dialogue with the country and project implementation monitoring on the ground. This Office should continue to play a key role in strengthening cooperation with the country and monitoring the improvement of portfolio performance;
- Dialogue with the authorities has made it possible to identify new areas of cooperation other than those falling within the area of intervention of MoF, which is currently the main recipient of the Bank's assistance in Algeria. In future, efforts should be geared towards other ministries and public institutions (banks, enterprises, etc.);
- The relatively "short" period (one year six months) allotted for the implementation of the *Dialogue Note* was challenging, especially for the assessment of its outcomes and concrete achievements. This period could be reconsidered and increased to two years or even three for the next *Country-Note*; and
- Support of private sector development, especially by improving the business environment, advisory services and assistance to employers' organizations and regulatory bodies, should be more thoroughly explored.

VI. CONCLUSION AND RECOMMENDATIONS

6.1 Conclusion

6.1.1 **The 2011-2012 Dialogue Note for Algeria is consistent with the new direction of the Bank-Algeria cooperation, essentially focused on capacity building, consultancy and analytical studies. With a view to** strengthening cooperation between the Bank and Algeria, the review confirmed the relevance of the focus areas defined in the Note, underpinned by the following pillars: (i) public administration capacity building; (ii) private sector development; and (iii) regional integration. The review pointed out that operationalization of the Dialogue Note was satisfactory on the whole and confirmed the alignment of operations with the country priorities. In the final analysis, the pillars of the 2011-2012 Dialogue Note may be strengthened and consolidated in the next Dialogue Note.

6.1.2 **With a score of 1.9 on a scale of 3, the performance of the Bank portfolio in Algeria in 2011 is deemed moderately satisfactory, given that the projects encountered difficulties and implementation suffered delays.** The operationalization of the Country Portfolio Improvement Plan (CPIP), validated by the Government and the Bank following the joint appraisal mission, will contribute to improving the performance and quality of Bank-funded operations in Algeria.

6.2 Recommendations

6.2.1 In order to strengthen the impact of cooperation between the Bank and Algeria, as well as portfolio performance, the following aspects need to be given special attention by the Government and the Bank:

For the Government:

- Gradually broaden the range of Ministries and institutions receiving Bank assistance.
- Ensure proper ownership of operations by the various stakeholders, in particular, by ensuring greater involvement of the latter right from the project design stage and setting up a mechanism for monitoring and coordinating the activities of the Ministry of Finance and the units in charge of projects.
- Strictly monitor the implementation of the Country Portfolio Improvement Plan
- Strengthened ownership of projects by beneficiaries and their involvement in all phases are essential prerequisites for the successful implementation of operations. The new approach calls for the active participation of the project team during the project preparation/appraisal phase.

For the Bank:

- Take the lessons and findings of this review into account in preparing the next Dialogue Note, including by allotting a longer period for the implementation and deepening of the current pillars.
- Continue to inform the authorities of the various instruments, funds and sector-based initiatives (MIC Fund, AWF, FAPA, etc.) available at the Bank and provide them with the necessary support and assistance to enable them to take advantage of these opportunities.
- Organize periodic training sessions to improve understanding of Bank rules and procedures on procurement and financial management.
- Consult with other development partners on their respective intervention strategies for Algeria and strengthen the participation of the Bank's Country Office in Algeria in the various "*thematic groups*".
- Implement the Country Portfolio Improvement Plan (CPIP) and ensure that its implementation is reviewed periodically.

For the Government and the Bank:

- Ensure the holding of periodic and regular portfolio review meetings bringing together the Bank, especially the Bank's Country Office in Algeria (DZFO), the Ministry of Finance and project coordinators, to monitor the implementation of the Country Portfolio Improvement Plan (CPIP).

Annex 1: Macroeconomic Indicators

Indicators	Unit	2006	2007	2008	2009	2010	2011
National Accounts							
GDP at current prices	DZD billion	8514.8	9362.7	11042.8	10034.5	12049.5	14384.8
GDP at current prices	USD billion	116.1	135.7	170	140.9	161	198
GDP per capita	USD.	3 110	3 610	4 971	4 037	4466	5328
Population	Million	33.3	33.8	34.2	34.9	35.6	37.7
GDP growth in real terms	%	2.0	3.0	2.4	2.4	3.4	2.4
Prices and Money							
Inflation (CPI)	%	2.5	3.5	4.5	5.7	3.9	4.5
Exchange rate (annual average)	DA/ USD	72.6	69.3	64.5	72.7	74.4	72.8
Money supply (annual variation) (M2)	%	18.6	24.2	16	3.2	15.4	19.9
Liquidity ratio (M2/GDP)	%	56.7	63.7	63.0	71.5	68.7	69.0
Total credit to the economy. annual var.	%	7.1	15.7	18.6	18	5.9	14.0
Government Finance							
Total fiscal revenue and grants	DZD billion	3639.8	3687.8	5190.5	3676.0	4392.9	5703.4
Total fiscal expenditure	DZD billion	2453	3108.5	4191	4246.3	4466.9	5731.4
Fiscal balance	DZD billion	1186.8	579.3	999.5	-570.3	-74.0	-28.0
Overall balance	DZD billion	1150.6	456.8	906.9	-713.1	-178.2	-95.1
Total revenue and grants	% of GDP	42.7	39.4	46.9	36.7	37.3	39.6
Total expenditure and net loans	% of GDP	28.8	34.8	39	43.6	41.7	40.0
External sector							
Total imports (fob)	USD million	20.68	26.35	37.99	37.40	38.89	44.94
Total exports (fob)	USD million	54.74	60.59	78.59	45.19	57.09	72.88
Trade balance	USD million	34.06	34.24	40.60	7.78	18.21	27.94
Current account balance	USD billion	28.90	30.54	34.45	0.40	12.15	19.70
Debt and Financial Flows							
Total medium- and long-term loans	USD million	5062	5286	4841	4356	3903	3263
Total external debt	USD million	5612	5795	5921	5687	5681	4405
Total domestic public debt	DZD billion	1847.3	1103.9	734	814	1100	1214.6

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

Annex 2: Development indicators

Social indicator	Algeria		Africa	Developing countries
	1990	2011 *		
Area ('000 Km ²)	2,382		30,323	98,461
Total Population (millions)	25.3	36.0	1,044.3	5,733.7
Population growth (annual %)	2.5	1.4	2.3	1.3
Life expectancy at birth, total (years)	67.1	73.1	57.7	77.7
Mortality rate, infant (per 1,000 live births)	45.1	22.4	76.0	44.7
Physicians per 100,000 People	94.2	120.7	57.8	112.0
Births attended by skilled health staff (% of total)	...	95.2	53.7	65.3
Immunization, measles (% of children ages 12-23 months)	83.0	95.0	78.5	84.3
School enrolment, primary (% gross)	94.7	110.2	101.4	107.8
Ratio of girls to boys in primary education (%)	84.1	94.1	88.6	...
Literacy rate, adult total (% of people ages 15 and above)	...	72.6	67.0	80.3
Access to Safe Water (% of Population)	94.0	83.0	65.7	86.3
Access to Sanitation (% of Population)	88.0	95.0	39.8	56.1
Human Development Index. (HDI) (0 to 1)	0.6	0.7	0.5	...
Human Poverty Index (% of Population)	...	17.5	33.9	...

Algeria

Economy	Algeria			
	2000	2009	2010	2011
GNI per capita, Atlas method (current US\$)	1,600	4,410	4,450	...
GDP (current Million US\$)	54,796	138,119	161,977	187,412
GDP growth (annual %)	2.2	2.4	3.4	2.4
Per capita GDP growth (annual %)	0.8	0.9	1.8	1.4
Gross Domestic Investment (% of GDP)	23.5	46.6	40.4	40.4
Inflation (annual %)	-0.6	5.7	3.9	4.1
Budget surplus/deficit (% of GDP)	9.7	-7.1	-1.0	-1.1
Trade, External debt & Financial flows	2000	2009	2010	2011
Export Growth, volume (%)	7.6	-12.5	-2.1	-1.7
Import Growth, volume (%)	1.7	7.4	2.2	0.6
Terms of Trade (% change from previous year)	59.4	-27.7	26.8	12.3
Trade Balance (mn US\$)	12,307	7,775	18,200	26,406
Trade balance (% of GDP)	22.5	5.6	11.2	14.1
Current Account (mn US\$)	9,142	413	12,230	17,454
Current Account (% of GDP)	16.7	0.3	7.6	10
Debt Service (% of Exports)	20.3	1.8	0.9	1.6
External Debt (% of GDP)	-402	3,032	633	...
Net Total Inflows (mn US\$)	200	319	198	...
Net Total Official Development Assistance (mn US\$)	280	2,761	2,291	...
Foreign Direct Investment Inflows (mn US\$)	9.7	23.3	25.0	...
Private sector development & infrastructure	2000	2009	2010	2011
Time required to start a business (days)	...	25	25	25
Investor Protection Index (0-10)	...	5.3	5.3	5.3
Main Telephone Lines (per 1000 people)	57.7	73.7	82.4	...
Mobile Cellular Subscribers (per 1000 people)	2.8	936.5	924.2	...
Internet users (000)	4.9	112.1	124.8	...
Roads, paved (% of total roads)	68.9	74.0	...	...
Railways, goods transported (million ton-km)	1,980	1,184	1,281	...

Source: ADB Statistics Department, based on various national and international sources

* Most recent year

Annex 3: Progress towards achieving the millennium development goals

Goals and Indicators	1990 ¹	2000 ²	2011 ³	Status of Achievement of the Goal
Goal 1: Eradicate extreme poverty and hunger				Achieved
Employment to population ratio, 15+, total (%)	37.9	44.8	49.4	Poverty has been reduced, from 1.7% in 1990 to 0.5 in 2009
Malnutrition prevalence, weight for age (% of children under 5)	11.3	11.1	3.7	
Poverty headcount ratio at \$1,25 a day (PPP) (% of population)	6.8	...	...
Prevalence of under-nourishment (% de la population)	5.0	4.0	5.0	
Goal 2: Achieve universal primary education				
Literacy rate, youth female (% of females ages 15-24)	...	86.1	89.1	Achieved
Literacy rate, adult total (% of people ages 15 and above)	...	69.9	72.6	
Primary completion rate, total (% of relevant age group)	80.7	94.3	90.5	
Total enrolment, primary (% net)	89.2	94.5	95.6	
Goal 3: Promote gender equality and empower women				
Proportion of seats held by women in national parliaments (%)	2.0	6.0	33	Achieved
Ratio of female to male primary enrolment	88.5	92.8	94.1	
Ratio of female to male secondary enrolment	88.6	107.3	101.8	
Goal 4: Reduce child mortality				
Immunization, measles (% of children ages 12-23 months)	89.0	81.0	95.0	Achievable
Mortality rate, infant (per 1,000 live births)	39.3	28.0	22.4	
Mortality rate, under-5 (per 1,000)	53.0	36.3	28.5	
Goal 5: Improve maternal health				
Births attended by skilled health staff (% of total)	77.0	95.9	95.2	Achievable
Contraceptive prevalence (% of women ages 15-49)	56.9	57.0	61.4	
Maternal mortality ratio (modelled estimate, per 100,000 live births)	180.0	140.0	97.0	
Goal 6: Combat HIV/AIDS, malaria, and other diseases				
Incidence of tuberculosis (per 100,000 people)	68.0	87.0	90.0	Achieved
Prevalence of HIV, female (% ages 15-24)	...	...	0.1
Prevalence of HIV, male (% ages 15-24)	...	...	0.1
Prevalence of HIV, total (% of population ages 15-49)	0.1	0.1	0.1	
Goal 7: Ensure environmental sustainability				
CO2 emissions (kg per PPP \$ of GDP)	1.9	1.2	1.5	Achievable
Improved sanitation facilities (% of population with access)	90.0	93.0	95.0	
Improved water source (% of population with access)	93.0	86.0	83.0	
Goal 8: Develop a global partnership for development				
Net total ODA/OA per capita (current US\$)	10.4	9.8	5.6	Achievable
Internet users (per 1000 people)	0.0	46.3	124.8	
Mobile cellular subscriptions (per 1000 people)	0.2	150.7	924.2	
Telephone lines (per 1000 people)	41.6	76.8	82.4	

Sources: ADB Statistics Department Databases; World Bank: World Development Indicators; UNAIDS; UNSD; WHO, UNICEF, WRI, UNDP; Country Reports,

Note: near, : Not Applicable; Data Not Available,

¹ Latest year available in the period 1990-1995; ² Latest year available in the period 2000-2004; ³ Latest year available in the period 2005-2011

Annex 4: List of On-going Project (October 2012)

	Project Name	Executing Agency	Approval Date	Signing Date	Effectiveness Date	Closing Date	Amount in UA	Disbment Rate.
1	Technical Assistance to the CNED	C.N.E.D	22/05/07	13/12/07	13/12/07	31/12/12	600 000	65.5 %
2	Electronic Banking Development Project in Algeria.	Ministry of Finance	30/11/07	05/05/08	05/05/08	31/12/13	494 800	0%
3	Project for the Modernization of the Communication and Collaboration System of the Ministry of Finance.	Ministry of Finance	31/07/09	04/02/10	04/02/10	31/12/13	496 500	0%
4	Capacity Building Programme for the Ministry of Finance	Ministry of Finance	18/11/11	25/05/12	25/05/12	31/12/13	49 000	0%
5	Project to Support the Supervision of the Implementation of Plans for the Modernization the Information Systems (IS) of Public Banks	Ministry of Finance	17/08/12				750 000	0%
TOTAL							2 838 300	

Source: ADB/SAP project database

Annex 5: Country Portfolio Improvement Plan (CPIP)

Major Issues/Challenges	Planned Actions	Outcomes	Indicators	Responsible	Timelines
Quality at Entry					
Improve the design and setting up of operations	Ensure that all projects are subject to a preparation mission involving all stakeholders aimed at improving the design of new projects and adopting the most appropriate institutional arrangements.	New operations are better designed.	Institutional arrangements, the tasks of each party as well as monitoring mechanisms are discussed with beneficiaries and clearly defined in project appraisal reports.	ADB	Immediate For all new operations
Better assess fiduciary arrangements and procurement capacities	Proper assessment of the fiduciary arrangements and capacities of beneficiaries should be systematically performed during the appraisal phase. Basic information should be provided to the project preparation team which will take such information into account when proposing the most appropriate procurement methods.	Fiduciary arrangements are taken into account and the most appropriate procurement methods used.	Project appraisal teams systematically include a financial management specialist and a procurement specialist Arrangements for the financial management of projects and the necessary resources are provided for and implemented from the start. The most appropriate procurement methods in terms of both the capacity of beneficiaries and the nature of the procurement to be made are selected after the project appraisal.	ADB /Gov	Immediate For all new operations
Expedite the start of operations	Key project staff members are appointed and involved from the project appraisal phase. Reduce the time the Bank takes to prepare <i>Letters of Agreement</i> and speed up the signing by the authorities Project launching missions are planned systematically. They should be fielded immediately upon project approval and led by DZFO	The timeframe for start-up of project activities is reduced	Project teams are in place and operational as soon as the Letter of Agreement is signed The authorities are made aware of the need to comply with the timeline laid down by the General Conditions for the signing and effectiveness of the Letters of Agreement. The Letters of Agreement are signed within a maximum period of one month following the grant approval. Launching missions are fielded for all new operations during which standard Bank documents and operating procedures are presented and explained to coordinators and project teams.	ADB /Gov	Immediate For all new operations
Project Monitoring, Supervision and Coordination					
Strengthen project monitoring	Establishment by project managers of an appropriate monitoring- evaluation and reporting system Transmission to the Bank of quarterly project status reports	Closer monitoring of the status of operations	A quarterly status report is regularly transmitted to DGREFE and the Bank Periodic project monitoring meetings are organized	Projects	First quarter of 2013.

Establish a mechanism for coordinating the efforts of the various stakeholders	Organisation of regular (quarterly) coordination meetings for the DGREFE, coordinators and DZFO to monitor the progress of the project and the implementation of the recommendations of supervision missions.	Better coordination of the various stakeholders	Regular meetings are organized for the DGREFE, coordinators and DZFO Recommendation of supervision missions are monitored and implemented	MoF/ADB	2013
Strengthen the technical orientation of missions	Each year, a fiduciary supervision mission will be carried out for the portfolio in addition to the field supervision conducted by DZFO.	Projects are subject to close monitoring that will help to detect difficulties upstream.	A fiduciary supervision mission including experts from the Fiduciary (ORPF) and Disbursement Departments will be organized in 2013.	ADB	2013
Procurement of Goods and Services					
Improve familiarization with Bank procurement rules and procedures	Organization of training sessions on Bank rules and procedures for the use of consultants, including through a "Fiduciary Clinic"	Improved familiarization with Bank procurement procedures and ability to use its <i>standard documents</i> .	The procurement process is clearly understood by project teams and procurement documents submitted to the Bank are of good quality.	ADB	First quarter of 2013.
Expedite the examination and processing of bidding documents	Expedite the processing of procurement files by the various bid evaluation committees.	Projects are implemented in accordance with the initial schedule.	Delays in the processing of procurement files are reduced considerably	Gov	First quarter of 2013
	Reduce delays in examination of procurement files at Bank level.		File processing delays at the Bank are reduced	ADB	Immediate
	Ensure that project management units in ministries are either provided with or assisted by procurement specialists.		. A procurement specialist is assigned or provided from the start of the project.	Gov/Project	Immediate
Improve the quality of bid evaluation reports.	Support coordinators and evaluation committees in preparing bid evaluation reports that comply with Bank standards.	The quality of bid evaluation reports is improved	Reduction in number of bid evaluation reports rejected by the Bank.	ADB/Projects	Immediate
Procurement plans (PP) systematically prepared and submitted to the Bank	Prepare and systematically update procurement plans (PP) to allow strict monitoring of project implementation	Coordinators are bound by more precise deadlines.	PP covering the first 18 months is prepared and forwarded to the Bank for approval before the project launch. Subsequently, the PP will be updated annually or as needed.	ABD/Projects	End-2012
Mobilize quality expertise for the implementation of project activities	Improve the quality of ToRs and make them more precise in order to enable bidders to submit bids that are better tailored to the needs of beneficiaries.	The required expertise is mobilized in time and the services offered meet the needs of beneficiaries.	Beneficiaries are more involved in the preparation of ToRs.	ADB/Projects	New operations.
	Ensure that the Notice of Expression of Interest reflects clearly and concisely the nature of the service expected of the consultant		Consultants are aware of the nature of the mission from the beginning, which reduces the risk of withdrawal after the launch of the consultation ok		
	In certain cases, use external consultants to prepare ToRs for "technical" projects		External consultants are hired to prepare the ToRs for "technical" projects.		
Reduce delays in signing contracts with the selected consultants	Both parties should agree on a number of standard contractual provisions (taxes, insurance, dispute resolution, etc.) that will be replicated for all projects in order to shorten the examination timeframes.	The timeframe for signing contracts is shorter	Contracts between the beneficiary and consultants are signed within one month after the Bank's notice of non-objection concerning the contract award./	ADB/Gov	Immediate

Disbursements					
Train beneficiaries in the use of the Special Account	The Bank trains beneficiaries in the use of the Special Account	Beneficiaries understand the rules for using the Special Account.	Project teams have received Special Account training and understand the rules of its use.	ABD	First quarter of 2013.
Financial management and audit					
Enhance knowledge of the Bank's financial management rules and procedures	Organization of workshops for capacity building in financial management for coordinators, project staff and those of central monitoring entities.	Enhanced national capacities in the financial management of projects	Training workshops in financial management are organized by the Bank, notably as part of the "fiduciary Clinic"	ADB	First quarter of 2013.
Submit timely audit reports	Audit firm should be recruited nine months prior to the audit report preparation, for the project implementation period.	Audit reports are submitted and validated on time	Auditors are recruited on time and audit reports received within six months following the end of the period concerned.	MoF/ Projects/ ABD	Permanent
Provide the required financial information and monitor report recommendations of audit	Include in quarterly status reports (QSRs) the financial statements of projects, budget execution monitoring statements and updates on the implementation of audit report recommendations, where appropriate.	Periodic financial information is of better quality and audit report recommendations are monitored.	Quarterly reports include financial and audit monitoring information.	MoF/ Projects	Permanent