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INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

COUNTRY PARTNERSHIP STRATEGY

FOR

THE PEOPLE'S DEMOCRATIC REPUBLIC OF ALGERIA

FOR THE PERIOD OF FY11-14

January 10, 2011

Maghreb Country Department Unit
Middle East and North Africa Region

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FISCAL YEAR

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ABBREVIATIONS AND ACRONYMS

AA	Association Agreement
AAA	Analytical and Advisory Activity
ADE	Algerian Water Agency (<i>Algérienne des Eaux</i>)
ADS	Social Development Agency (<i>Agence de Développement Social</i>)
AIDS	Acquired Immune-Deficiency Syndrome
ANCC	National Agency of Climate Change (<i>Agence Nationale des Changements Climatiques</i>)
AND	National Solid Waste Agency (<i>Agence Nationale des Déchets</i>)
ANDI	National Agency for Investment Development
ANGEM	National Agency for Microcredit Management (<i>Agence Nationale de Gestion du Micro Credit</i>)
ARPT	Postal and Telecommunication Regulatory Authority (<i>Autorité de Régulation de la Poste et des Télécommunications</i>)
AT	Algeria Telecom
BA	Bank of Algeria (<i>Banque d'Algérie</i>)
BP	British Petroleum
BOT	Build-Operate-Transfer
BSMP	Budget System Modernization Project
CAS	Country Assistance Strategy
CASCR	Country Assistance Strategy Completion Report
CEO	Chief Executive Officer
CFAA	Country Financial Accountability Assessment
CGPP	General Commission for Planning and Prospective
CNED	National Fund for Infrastructure and Development (<i>Caisse Nationale d'Équipement et de Développement</i>)
CNES	National Economic and Social Council (<i>Conseil National Economique et Social</i>)
CNMA	National Agricultural Credit Union (<i>Caisse Nationale de Mutuelle Agricole</i>)
COSOB	Stock Exchange Organisation and Supervision Commission (<i>Commission d'Organisation et de Surveillance des Opérations de Bourse</i>)
CPA	Cooperative Bank of Algeria (<i>Crédit Populaire d'Algérie</i>)
CPPR	Country Portfolio Performance Review
CPS	Country Partnership Strategy
CSP	Concentrated Solar Power
CTF	Clean Technology Fund

DGF	Department of Forestry (<i>Direction Générale des Forêts</i>)
DGREFE	Directorate of Economic and External Financial Relations (<i>Direction Générale des Relations Economiques et Financières Extérieures</i>)
DO	Development Objectives
EC	European Commission
EMTAL	Energy and Mining Technical Assistance
EU	European Union
ESW	Economic and Sector Work
FBS	Fee-Based Services
FDI	Foreign Direct Investment
FSAP	Financial Sector Assessment Program
FY	Fiscal Year
GCC	Gulf Cooperation Council
GDP	Gross National Product
GEF	Global Environment Facility
GEM	Gender Empowerment Measure
GHG	Greenhouse Gas
GNI	Gross National Income
HD	Human Development Index
HIV	Human Immune-Deficiency Virus
HMIS	Human Resources and Technical Infrastructure
IBRD	International Bank for Reconstruction and Development
ICA	Investment Climate Assessment
ICR	Implementation Completion Report
ICT	Information Communication and Technology
IDA	International Development Association
IDF	International Development Fund
IEG	Independent Evaluation Group
IFC	International Finance Corporation
IMF	International Monetary Fund
IP	Implementation Progress
IT	Information Technology
LNG	Liquefied Natural Gas
LPG	Liquefied Petroleum Gas
LSMS	Living Standard Measurement Study
MADR	Ministry of Agriculture and Rural Development (<i>Ministère de l'Agriculture et du Développement Rural</i>)
MATE	Ministry of Territorial Administration and Environment
MDG	Millennium Development Goals
M&E	Monitoring and Evaluation
MEDA	Euro-Mediterranean Partnership
MENA	Middle East and North Africa
METAP	Mediterranean Environmental Technical Assistance Program
MIC	Middle Income Country
MNSF	Ministry of National Solidarity and Family
MPS	Ministry of Planning, Prospective and Statistics (<i>Ministère du Plan, de la Prospective et des Statistiques</i>)
MIGA	Multilateral Investment Guarantee Agency
MTEF	Mid-term Expenditure Framework
MW	Mega Watt
NEAP	National Environmental Action Plan

NEPAD	New Partnership for Africa's Development
OED	Operations Evaluation Department
ONA	National Sanitation Office
ONS	National Statistical Office (<i>Office National des Statistiques</i>)
PAFTA	Pan-Arab Free Trade Agreement
PAI	Integrated Agro-food Industry Centers (<i>Pôles Agro-alimentaires Intégrés</i>)
PCR	Public Credit Registry
PCSCE	Supplemental Economic Support Program (<i>Programme Complémentaire de Soutien à la Relance Economique</i>)
SRE	Economic Support Program (<i>Programme de Soutien à la Relance Economique</i>)
PER	Public Expenditure Review
PFM	Public Financial Management
PIP	Public Investment Program
PNDAR	National Agriculture and Rural Development Plan (<i>Plan National pour l'Agriculture et le Développement Rural</i>)
PREA	Agricultural Economy Renewal Program (<i>Programme du Renouveau de l'Economie Agricole</i>)
PSRR	Rural Renewal Support Program (<i>Programme de Soutien du Renouveau Rural</i>)
QAG	Quality Assurance Group
RAMP	Reserve Advisory Management Program
REP	Rural Employment Project
RF	Results Framework
RM	Results Matrix
ROSC	Report on the Observance of Standards and Codes
RTA	Reimbursable Technical Assistance
SASISE	Information Systems, Monitoring and Evaluation (<i>Statistique agricole, Système d'Information et d'Evaluation</i>)
SDAT	Master Development Tourism Plan
SIAR	Rural Agricultural Investment Strategy (<i>Stratégie d'Investissement Agricole et Rural</i>)
SME	Small and Medium Enterprises
SNAT	Regional Planning Master Plans (<i>Schéma National de l'Aménagement du Territoire</i>)
SONATRACH	National Company of Hydrocarbons Research, Production, Transport, Transformation and Marketing (<i>Société Nationale pour la Recherche, la Production, le Transport, la Transformation, et la Commercialisation des Hydrocarbures</i>)
TA	Technical Assistance
TFSCB	Trust Fund for Statistical Capacity Building
TIMSS	Trends in International Mathematics and Science Study
TTL	Task Team Leader
UNDP	United Nations Development Programme
WB	World Bank
WDI	World Development Indicators
WDR	World Development Report
WTO	World Trade Organization
ZET	Areas of Tourism Expansion (<i>Zones d'Expansion Touristique</i>)
ZIDI	Integrated Zones for Industrial Development (<i>Zones Intégrées de Développement Industriel</i>)

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COUNTRY PARTNERSHIP STRATEGY FY11-FY19

TABLE OF CONTENTS

	Pages
EXECUTIVE SUMMARY	1
I. INTRODUCTION.....	1
II. POLITICAL, ECONOMIC AND SOCIAL DEVELOPMENTS	1
A. RECENT ECONOMIC DEVELOPMENTS AND MEDIUM TERM PERSPECTIVES	2
B. OIL AND DIVERSIFICATION	7
C. SOCIAL AND VULNERABILITY OUTLOOK.....	10
D. ALGERIA’S REGIONAL ENGAGEMENTS.....	12
III. THE GOVERNMENT’S PROGRAM AND IMPLEMENTATION CHALLENGES	13
IV. LESSONS FROM RECENT WORLD BANK GROUP ENGAGEMENT IN ALGERIA	14
V. COUNTRY PARTNERSHIP STRATEGY	17
A. THE PRINCIPLES FOR BANK’S ENGAGEMENT	17
B. CONSULTATION AND PARTNERSHIP	18
C. THE COUNTRY PARTNERSHIP STRATEGY PROGRAM	19
AREA OF INTERVENTION 1: STRENGTHENING GROWTH THROUGH DIVERSIFICATION OF THE ECONOMY	21
AREA OF INTERVENTION 2: PROMOTING SUSTAINABLE DEVELOPMENT AND REDUCING SPATIAL DISPARITIES	24
AREA OF INTERVENTION 3: STRENGTHENING THE INSTITUTIONS OF ECONOMIC PLANNING, MONITORING, EVALUATION AND POLICY-MAKING	26
D. RESULTS.....	28
VI. RISKS AND CHALLENGES IN IMPLEMENTATION.....	28
APPENDICES:	
APPENDIX 1: RESULTS MATRIX	30
APPENDIX 2: CAS COMPLETION REPORT	38
APPENDIX 3: CONSULTATIONS REPORT.....	65
APPENDIX 4: MEDIUM-TERM MACROECONOMIC FRAMEWORK	67
APPENDIX 5: CHALLENGES TO THE TRANSFORMATION OF THE ALGERIAN ECONOMY	70
APPENDIX 6: ALGERIA COUNTRY FINANCING PARAMETERS.....	76
APPENDIX 7: REIMBURSABLE TECHNICAL ASSISTANCE QUALITY MONITORING TOOL.....	77

CAS ANNEXES:

ANNEX A1: ALGERIA AT A GLANCE	78
ANNEX B2: SELECTED INDICATORS OF BANK PORTFOLIO PERFORMANCE AND MANAGEMENT	81
ANNEX B3: IBRD/IDA PROGRAM SUMMARY	82
ANNEX B3: IFC INVESTMENT OPERATIONS PROGRAM	83
ANNEX B3: MIGA OUTSTANDING EXPOSURE	84
ANNEX B8: STATEMENT OF IFC'S COMMITTED AND OUTSTANDING PORTFOLIO	85
ANNEX B8: OPERATIONS PORTFOLIO (IBRD/IDA AND GRANTS).....	86

COUNTRY MAP	87
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FIGURES:

FIGURE 1: EVOLUTION OF GDP PER CAPITA, 1980-2009	2
FIGURE 2: PUBLIC INVESTMENT PROGRAM, 2002-2010	3
FIGURE 3: REAL GDP GROWTH, 1997-2010	4
FIGURE 4: ECONOMIC GROWTH BY SECTOR OF THE ECONOMY	4
FIGURE 5: CONSUMER PRICE INDEX	5
FIGURE 6: ALGERIA'S EXTERNAL POSITION	5
FIGURE 7: CRUDE OIL AND NATURAL GAS PRODUCTION AND CRUDE OIL PROVED RESERVES	7
FIGURE 8: COMPETITIVENESS	8
FIGURE 9: ALGERIA'S DEPENDENCE ON HYDROCARBON EXPORTS	8
FIGURE 10: UNEMPLOYMENT, 1995-2010	11
FIGURE 11: YOUTH UNEMPLOYMENT, 2006-2010	11

TABLES:

TABLE 1: LIST OF APPROVED RTAS	16
TABLE 2: CPS PROGRAM AREAS OF ACTIVITY	20

EXECUTIVE SUMMARY

- i. **Algeria is well positioned today to fulfill its large economic potential, play a strategic role in the region, and contribute to further economic integration between North Africa, Europe and the African continent.** The progress it has made over the past decades in human and infrastructure development, and its important stock of energy and mineral resources, provide solid foundations to achieve this potential and bid well for stronger and more diversified economic development.
- ii. **During the past ten years, Algeria has sustained growth and improved social equity through an ambitious public investment program and market-oriented economic policies initiated earlier in the decade.** Substantial ground had been lost during the crisis that began in the mid 1980s, when low oil prices, followed by political instability. This led to almost two decades of economic stagnation, slowing the advancements Algeria had been experiencing since independence. In recent years, however, such trend has been reversed. As the process of internal reconciliation took hold and the price of oil rebounded, the country regained stability and the Government began implementing a series of large public investment programs in infrastructure, housing and social development. These were accompanied by policies further opening up the country to trade and private investment, building on significant market-oriented reforms carried out in the 1990s.
- iii. **Rapid economic growth over the last decade was driven by the combination of rising oil and gas exports and prudent macroeconomic management.** Active expenditure policy centered on increasing public investment, improving social services and helping the disadvantaged, resulted in reduced unemployment and poverty. These active fiscal policies, combined with low external debt and prudent economic management have allowed Algeria to withstand the impact of the recent global crisis, in spite of the drop in oil and gas revenues. The brisk pace of economic growth of the non-oil economy continued in 2009 and, despite the sharp drop in the current account position in 2009 during the crisis, the external position remained strong with reserves equivalent to about 3 years of imports.
- iv. **Despite these achievements, Algeria continues to face major challenges in terms of economic diversification and the creation of quality jobs.** The global economic crisis has reminded Algeria of the risks associated with excessive dependence on oil and the need to foster much stronger economic diversification to generate employment for an increasingly skilled young population. Improvements in the quality of public expenditure and significant reforms in the business environment are prerequisites to enable such economic transformation and ensure better targeted public services, more effective social assistance programs, and higher economic returns to public investments, especially in infrastructure. In addition, Algeria needs to address growing environmental challenges and spatial disparities issues. The CPS program aims to help the Government implement a program that will deal with these challenges and to support a successful diversification strategy.
- v. **The Government's economic program for the period 2010-2014 continues to emphasize strong public investment in infrastructure, housing and social services, together with job creation and economic diversification as key pillars.** The Government program also aims to improve the capacity of the State and the effectiveness of its policies via more efficient public expenditure and strengthened policy-making, planning and evaluation capacities. Following a reorientation of policy decisions away from institutional reforms, driven by the oil windfall in the 90s, the Government has recently engaged in a series of economic policies aiming at reducing the country's dependence on imports and supporting local economic actors. Some of these policies include actively regulating foreign investment and foreign trade, partly reversing the trade and investment openness stance that had been achieved earlier in the decade.

vi. **The Government has asked the Bank to be a key partner in supporting Algeria’s economic development.** Based on a long history of cooperation, the authorities value the contribution that the Bank can make to the implementation of key aspects of their strategy and have requested that the Bank continues to provide knowledge and advice in key sectors and to selected institutions. The CPS proposes to provide assistance mainly through Fee-Based Services (Reimbursable Technical Assistance, RTA), supported by selective Bank economic and sector work activities (AAA), supported through Trust Funds as feasible.

vii. **The FY11-14 Country Partnership Strategy (CPS) responds positively to this request, building on the lessons learned during the previous Country Assistance Strategy (CAS).** The 2006 CAS Progress Report and a 2007 QAG review of AAA activities confirmed the value of the Bank’s knowledge products to assist Algeria, including the use of RTAs, and recommended that such assistance be provided within a consistent framework agreed with the Government. This CPS provides such a framework. The partners have met periodically over the last two years and have agreed areas of engagement and identified a first set of RTA operations under this new cooperation framework. The demand-driven nature of the program assures alignment with Government priorities. Consultations and joint information sessions with civil society and private sector operators have helped define and reconfirm these priorities.

viii. **The focus of the Bank’s action is on strengthening institutional capacity to support the Government’s overarching objective to increase job creation, through balanced and sustainable economic growth and diversification.** The CPS is developed around three strategic areas of engagement as follows:

- **Strengthening growth through diversification of the economy**, including modernizing the financial sector, supporting the implementation of the agricultural and rural development strategy, and improving the investment climate, in particular for SMEs. This will complement IFC’s strategy, both in its investment and technical assistance activities, where it has scaled up its engagement over the past years, especially in the financial sector area.
- **Promoting sustainable development and reducing spatial disparities**, including technical assistance to implement environment protection initiatives, as well as technical support to Government initiatives that aim at reducing spatial disparities and ensuring balanced growth across the country, such as the development of competitiveness centers in agro-industry and other sectors.
- **Strengthening the institutions of economic planning, monitoring, evaluation and policy-making**, in particular by providing technical support to strengthen the planning, monitoring and evaluation capacity of various sectors in the Government and their statistical capacity, as well as the capacity to conduct impact evaluations of public interventions.

ix. **The partners will regularly review and update the partnership program.** To reflect on the flexible nature of this CPS, the list of planned activities includes a set of confirmed (Tier 1) RTA and Bank-funded activities, as well as a list of expected (Tier 2) activities that will be reassessed as the program evolves. Within the framework of the agreed areas of engagement, the partners will meet annually to assess progress in implementation and agree on follow-on operations. New RTAs would be included as they are identified and budgeted by the Government. The selective use of Bank-funded technical assistance and sector analysis will continue to allow the Bank to pursue policy dialogue on the reform agenda and to open new avenues of cooperation. The timing of the reviews will take into account the budgetary approval cycle in Algeria. To facilitate the dialogue and ensure the quality of its implementation the Bank is also scaling up its presence in Algiers.

x. **The collaboration between the Bank and Algeria will be one of the first based on a CPS resting solely on knowledge services.** It thus carries significant learning opportunities in its implementation and offers potential to be replicated in other countries. Being strongly demand-driven and primarily client-financed, the program carries a risk that its developmental impact be limited by the pace of implementation of the Government's own program and reforms. To minimize these risks, the Bank and the Government have put in place a process of systematic filtering of the requests to ensure that they fit in the Government's strategic priorities, that they are sufficiently implementation-oriented, and that they carry significant developmental impact potential. The CPS includes a tailored implementation Quality Monitoring Tool to carefully track progress in results and outcomes. Finally, to cope with the implementation challenges of a program based mostly on RTAs, the Bank's MENA region is putting in place additional procedures and quality assurance measures to guarantee the high quality of these RTA products and to ensure uniformity in the use of this instrument across the region.

xi. **This CPS responds to the strategic choice of a Middle Income Country that is currently in no need of borrowing but that chooses to maintain a strong partnership with the Bank based on knowledge activities.** Algeria is at a turning point in its economic development path. In addition to regaining stability, it has achieved significant economic progress over the past years, raised living standards and improved its infrastructure. Its main policy challenge for the coming years remains that of economic diversification, productivity improvements and stronger job creation based on a new growth pattern that is more immune to oil price volatility. Putting in place the right policy-mix to enable this will require anchoring policy-making on solid knowledge and strong implementation, evaluation and institutional capacity. The aim of this CPS is precisely to support the Algerian authorities in this endeavor.

I. INTRODUCTION

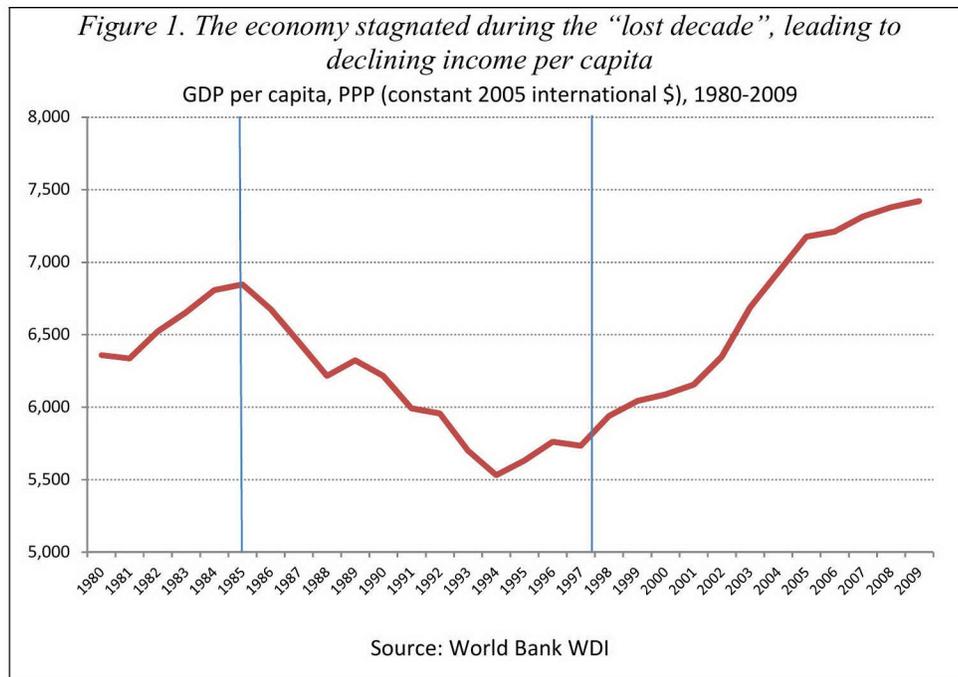
1. *This document presents the Country Partnership Strategy between the World Bank Group and Algeria for the period FY11 to FY14¹. This CPS seeks to accompany Algeria's continued efforts to put in place the institutional basis for long-term economic development, diversify the economy to provide greater employment opportunities to its young and increasingly educated population, and reduce environmental risks and spatial disparities. The FY11-FY14 CPS for Algeria represents an effort by the Bank to develop an innovative and strategic partnership with a Middle Income Country (MIC), centered on knowledge products and mostly based on Reimbursable Technical Assistance. No lending operation is included or expected during this CPS, in line with the current Government policy not to engage foreign borrowing, but the Bank could consider the resumption of lending within this strategy if the Authorities were to request it. This CPS represents an opportunity for the Bank to engage with Algeria as a knowledge institution and could serve as an example for other non-borrowing countries.*

II. POLITICAL, ECONOMIC AND SOCIAL DEVELOPMENTS

2. *Algeria is an important economic player in northern Africa and a key actor in regional economic integration, particularly between Europe, the Maghreb region, and Sub-Sahara Africa. Algeria's sizeable endowment of oil and gas, its large, young and growing population (35 million, growing at 1.5 % p.a.) and the size of its GDP (US\$161 billion in 2010), place the country as a solid middle income and the second largest economy in the MENA region after Egypt. Its GDP per capita (at US\$4,400 in 2010) is one of the highest among non-GCC MENA countries. Algeria shares with the countries of the region several challenges, starting with the need to generate employment and income for a young and increasingly educated population. As for other oil producing countries, Algeria faces the challenge to diversify its economy, especially in terms of non-hydrocarbon exports. Algeria is also important to the further integration of the Maghreb region, and key partner to the European Union and the Sub-Saharan Africa region.*

3. *After a decade of political instability and economic stagnation, when Algeria suffered from violence and heavily declining income, the country started to regain stability at the end of the 1990s. The drop in oil prices in the mid-Eighties led to a long period of economic stagnation (Figure 1). Despite strong growth of the global economy, the average annual growth rate of the non-oil sectors in the Nineties stood at 1%, in an environment of rapid labor force growth. The decade of the 1990s was a period of deep political instability where armed groups challenged the authority of the State. It was also a period of major economic reforms, while public investment, especially in infrastructure, had to be reduced drastically. Early in the decade, the authorities had undertaken a series of market-oriented reforms, ending control of most prices, opening-up trade and investment, and gradually liberalizing the financial sector. These reforms led to the rise of a dynamic private sector in the trade, services and, to a lesser extent, manufacturing sectors. Specific measures in favor of private sector development included reduced fiscal pressure, simplification of fiscal procedures, and development of infrastructure in particular in transport, and the introduction of new financial products, such as leasing. However, because of the political instability of the 90s and a difficult business environment, private investment's response to these reforms was insufficient to strengthen growth, compensate for the fall in the oil economy, and create sufficient jobs to stop the rise of unemployment.*

¹ The previous CAS was presented to the Board in FY04 and a CAS Progress Report followed in FY06.



4. *Algeria started the new century with a drastically different outlook from the previous decade, offering hopes for catching-up with the “lost decade” of the 1990’s and significantly improving standards of living.* As the process of internal reconciliation took hold and the price of oil rebounded, the country regained stability and the Government started to implement a series of large public investment programs in infrastructure, housing, agriculture and social development (education, social transfers and health). These were accompanied with reforms further opening-up the country to trade and private investment and strengthening macroeconomic management. Algeria implemented a reform agenda that included reforming public enterprises, accession to WTO, improving the business environment, and overhauling institutions in finance. It also initiated sectoral reforms in the telecoms, energy, water, transport and financial sectors. These policies enabled rapid economic recovery, sustained growth and massive employment creation, especially outside the hydrocarbon sector.

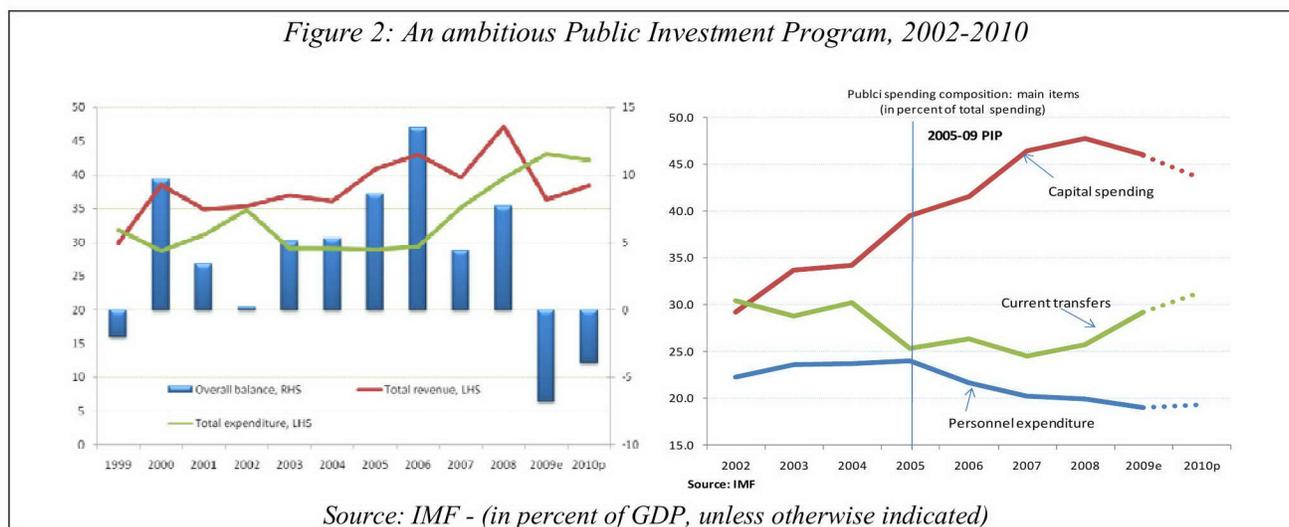
5. *The rebound of oil markets since the late 1990s, offered the financial space for the Government to follow a determined policy of reducing the level of external debt.* The Algerian authorities developed and implemented a strategy of curtailing new borrowing and repaying foreign loans in advance of maturity. As a result, the level of foreign debt dropped from 41% of GDP in 2001 to around 2.8% of GDP in 2010. Of this, only 1.3% of GDP was foreign public debt (US\$2.1 billion by end of 2009). Declining fiscal revenues in 2009 forced Algeria to post its first fiscal deficit in a decade (-6.8% of GDP). Due to the rebound of revenues, owing to higher hydrocarbon receipts, the fiscal deficit is estimated to have decreased by end of 2010 to -3.9% of GDP.

A. Recent Economic Developments and Medium Term Perspectives

6. *Algeria’s natural endowment of gas and oil determines in large part its economic outcomes.* The hydrocarbon sector accounted for 32% of GDP in 2009 (from 45% in 2008), provided 98% of its foreign exchange receipts and financed around 57 % of total public spending (this amounted to 43 % of GDP). In 2009, Algeria was the fourth largest crude oil producer in Africa and the sixth largest natural gas producer in

the world (after Russia, the United States, Canada, Iran and Norway). Sonatrach, the State-owned hydrocarbon company, is the largest African Oil and Gas Company, the 2nd largest LNG and LPG exporter in the world, the 3rd largest natural gas exporter, and the 12th largest global Oil and Gas Company. The rise in oil and gas prices, together with increasing production since 2001, have further increased the relative weight of hydrocarbons in the economy. The value of oil and gas exports increased from around US\$24 billion in 2003 to around US\$79 billion in 2008, but it decreased to US\$44 billion in 2009 during the global crisis, highlighting the Algerian economy's vulnerability to oil price volatility. It increased again to US\$56 billion in 2010.

7. *The rapid increase of revenues from oil and gas over the past years allowed the Government to finance an ambitious public investment program.* In 2009, the Public Investment Program (PIP)² represented close to half of public spending (46%), followed by personnel expenditures (21%), and social transfers (19%). Despite the decrease in oil revenues in 2009, the Government did not scale down the implementation of the PIP and was able to finance all its expenditures, including its commitment to raise the salaries of civil servants, without resorting in any significant way to the Receipts Stabilization Fund. Seventy percent of the PIP is allocated to housing, infrastructure, irrigation and education projects. The size of the capital budget has put pressure on the implementing capacity of the Government and public agencies over the past years. As a consequence, programs are often not fully implemented as planned and there are concerns about the effectiveness of the investments. For the 2010-2014 periods, the Government has set as a priority to improve the quality of all investment projects, and to strengthen the capacity of the State to appraise projects and monitor their implementation.

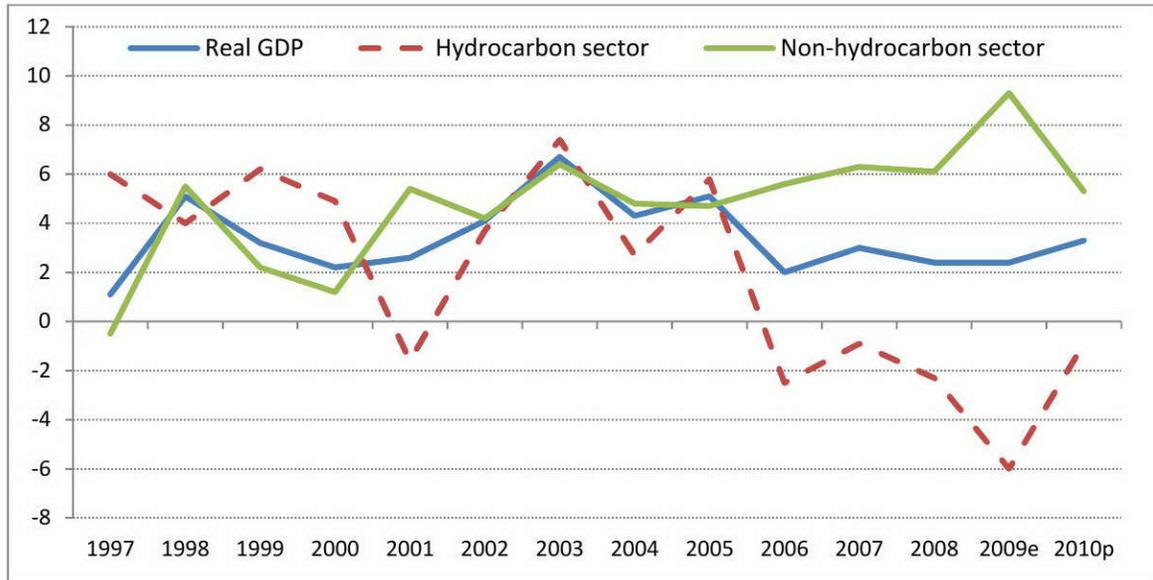


8. *The PIP, combined with strong growth of domestic demand, has been a major factor behind the steady and rapid growth of the non-oil economy.* The non-oil economy grew at a steady pace at an average of 5.8% p.a. between 2004 and 2008 (average annual growth for the whole economy was 3.5%), and jumped to 9.3% in 2009 thanks to an exceptional agricultural year, to decline again to 5.3% in 2010. This growth has nevertheless been uneven across various sectors of the non-oil economy. Growth in the hydrocarbon sector slowed down and has been negative since 2006, partly because of delays in the investment program in the

² Programme de Soutien à la Relance Economique (2001-2004) and Programme complémentaire à la croissance économique (2005-2009).

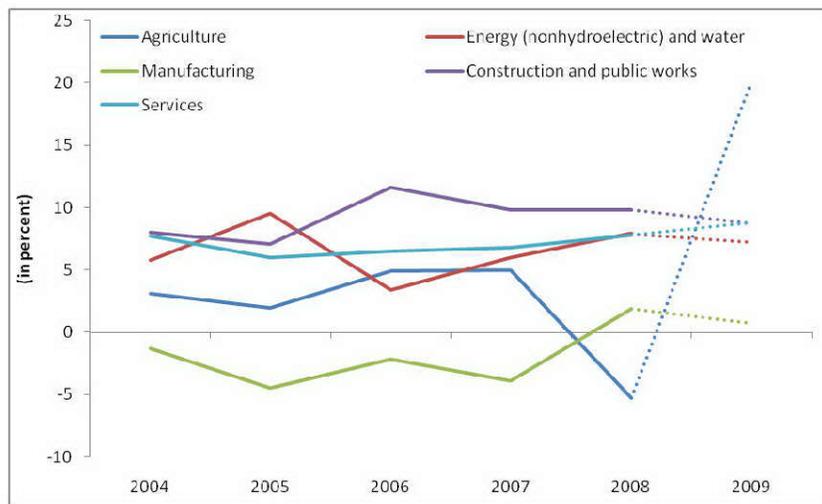
energy sector (See Figure 3). Fast growing sectors include services, construction, energy and water. Agriculture has grown at 2% on average (2004-2008) and in 2009 alone it grew 18%. Manufacturing overall has contracted; especially food processing and textiles (see Figure 4).

Figure 3: Algeria Real GDP growth, 1997-2010 (in percent change)



Source: IMF, 2009 data are estimates, 2010 data projections

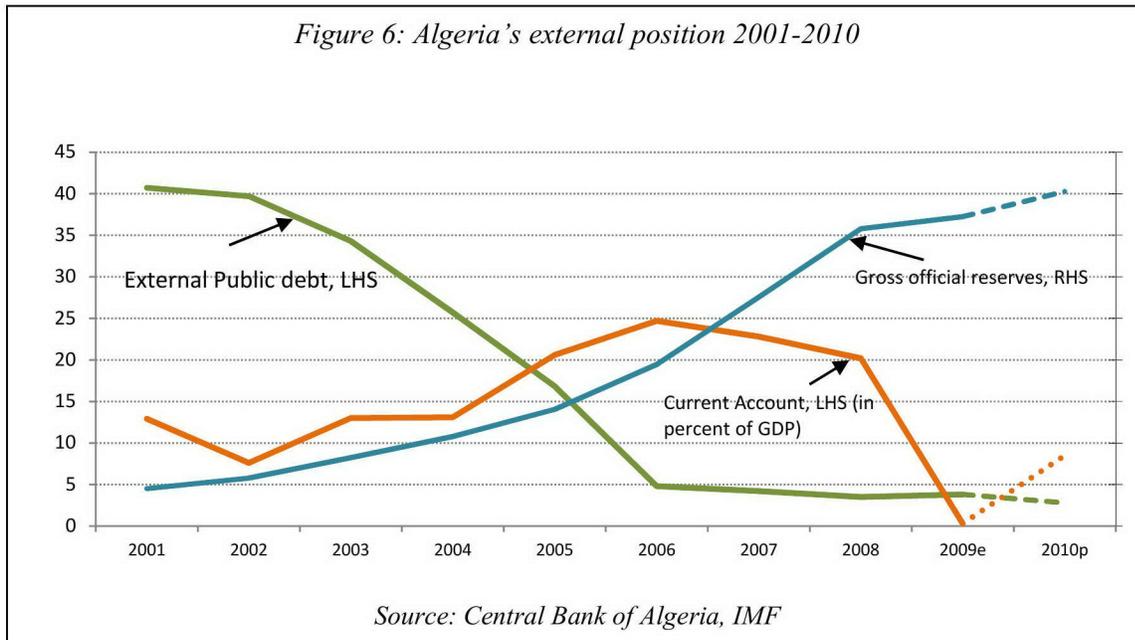
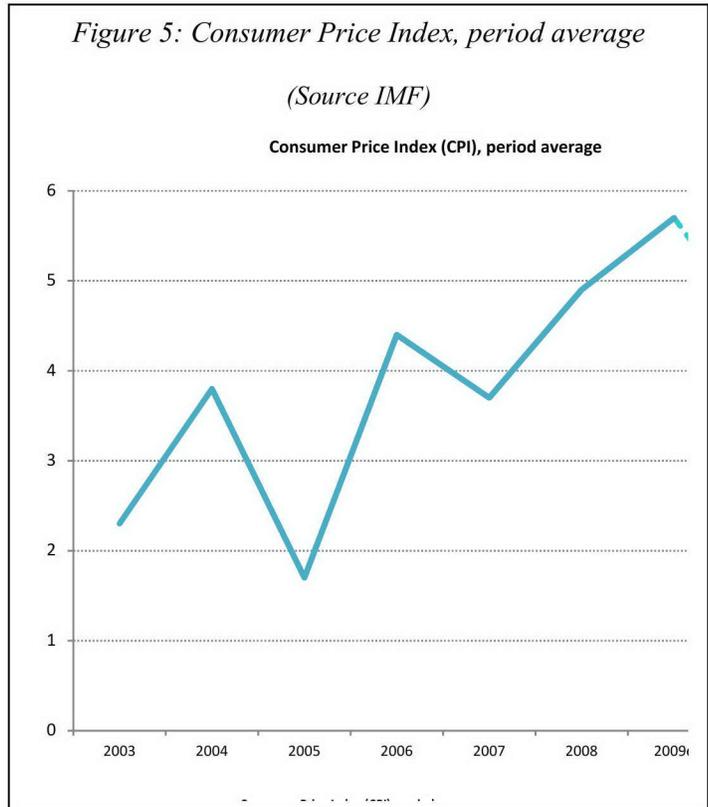
Figure 4: Economic growth across various sectors of the non-oil economy diverges substantially



Source: IMF

9. *Despite the increase in domestic demand driven by the PIP and public wage increases, Algeria has maintained a stable macroeconomic environment and inflation remains under control, although an increase in the price of fresh food led to higher inflation.*

Inflation increased from 3.5% in 2007, to 4.9% in 2008 and 5.7% in 2009. In 2010, however, inflation decreased to 4.3%. Substantial large current account surpluses have meant a rapid increase in the level of international reserves, which stood at US\$149 billion at end 2009 (or 36 months of imports). The trend continued in 2010, the IMF is projecting international reserves to total US\$161 billion (or 37 months of imports). The exchange rate is a managed float and the IMF estimates that the real effective exchange rate is near its equilibrium level³. The liberalization of imports and successive tariff reductions over the recent years led to a significant increase in imports, reaching US\$39 billion in 2008 and 2009 (up from US\$18 billion in 2004), but this increase has been more than compensated by increased hydrocarbon export revenues, leading to a healthy overall current account balance surplus of US\$34.5 billion in 2008. This has nevertheless deteriorated drastically in 2009 with the drop of oil prices, as exports dropped from US\$78.6 billion in 2008 to \$US45.2 billion in 2009.



³ The Algerian exchange rate regime is a managed float with no pre-determined path for the exchange rate. Algeria has no explicitly stated nominal anchor, but rather monitors various indicators in conducting its monetary policy.

The Impact of the Recent Crisis

10. *The 2008/2009 global crisis affected Algeria mainly through the slump in oil prices, reducing the flow of resources to the country and Government revenues.* Similarly to other MENA countries, the global crisis did not affect Algeria through the financial sector as this has limited linkages to the rest of the world. Economic growth dropped to 2.4% in 2009 owing largely to the contraction of the hydrocarbon sector (-6%), due to a drop in international prices as well as a reduction in crude oil production volumes. However, this was counterbalanced by growth on the non-hydrocarbon sector. This grew at a robust 9.3% in 2009 - an excellent harvest translated into high agriculture growth and the construction and service sectors expanded in response to high public spending. Inflation remained under control even if supply issues in the agro industry fueled fresh food price increases. Overall inflation reached 5.7% at end-2009. Core inflation (excl. fresh food) declined by 1.9% in 2009 reflecting the Bank of Algeria's efforts to absorb excess liquidity. Declining fiscal revenues in 2009 forced Algeria to post its first fiscal deficit in a decade (6.8% of GDP).

11. *As a result of declining demand and prices for petroleum, Algeria's external position dropped from a current account surplus of 20.2 % of GDP in 2008 to a current account surplus of US\$0.4 billion in 2009 (about 0.3% of GDP).* With the reverse in oil prices this however again increased to US\$13.4 billion in 2010. This steep drop led the authorities to reinforce measures initiated already in 2008 aimed at reducing imports and the amount of dividends transferred abroad by foreign investors present in Algeria. Such measures seemed to have had effect on the trade balance, which increased from US\$7.8 billion in 2009 to US\$19.7 billion in 2010. Exports, however, saw a drastic decline of 43% with the slump in international oil prices. Because Algeria still holds a large stock of foreign exchange reserves, the country's external position remains strong. With the strengthening of international oil prices, the IMF is forecasting a current account surplus of 8.5 % of GDP in 2010.

Medium to Long-term Prospects⁴

12. *The medium-term outlook remains positive, supported by rising commodity prices, but the challenges of economic diversification and sustained job creation for the educated and young labor force remain severe.* Short of an economic transformation built on stronger private investment growth and diversification of the industrial and exports base, the challenges faced by Algerian society are likely to remain severe. Also, reducing economic and spatial disparities, protecting the environment and securing scarce water resources will continue to be a challenge for Algeria as its population and economy grow.

13. *Fiscal policy will remain expansionary in 2010-2014, keeping Algeria's fiscal position in deficit for the medium term.* Reserves accumulated over the years and hydrocarbon revenue prospects should provide the fiscal space to pursue the new Public Investment Program (PIP) for 2010-14. The 2010 budget projects a reduction of 2 percentage points of the fiscal deficit with a reference oil price of US\$ 37 per barrel⁵. Current expenditures increased by 31% in 2010 mostly due to increases in public salaries and maintenance costs related to the infrastructure financed through the new PIP, with new hiring of about 60,000 civil servants and higher wages and maintenance costs. The Government plans to continue its policy of significant investment in infrastructure and social programs over the medium term, while pursuing a certain degree of fiscal consolidation in order to reach a surplus of 2.6 % GDP in 2014⁶.

14. *Algeria's economic perspectives continue to be tightly linked to the evolution of oil and gas prices, the expansion of hydrocarbon production and expected reserves.* The high levels of public expenditure

⁴ See Annex 4 for more details on the medium term outlook and data.

⁵ To be compared with a projected average price of US\$76.5 in 2010 according to the IMF.

⁶ IMF Estimates (2010).

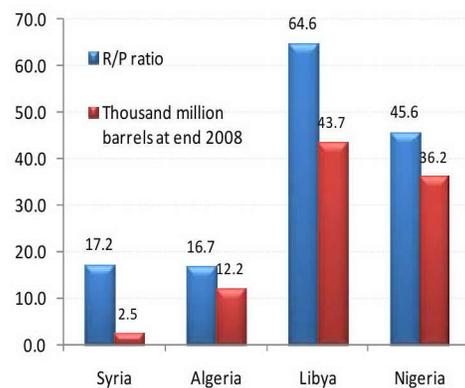
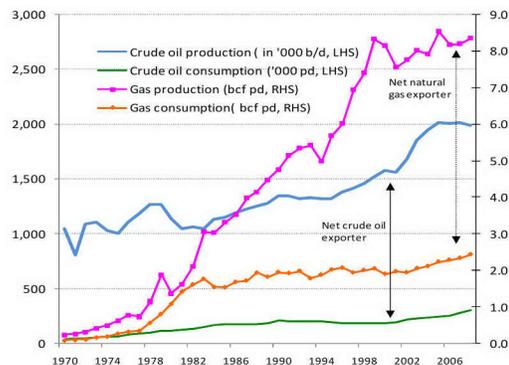
associated with the PIP, salaries increases, as well as the investment plans of Sonatrach will continue to be feasible only in the context of high prices of oil and gas. The IMF estimates that the non-oil economy will continue to grow in the short-term (5.3% in 2010). In the medium term, current estimates of oil price trends ensure that the 2010-2014 PIP and Sonatrach's investment plans can be sustained. The hydrocarbon sector growth rate is expected to average 0.6% over that period, compared to 5.2% for the non-hydrocarbon economy⁷. The external financial position of the country should remain sound (oil is over two thirds of the energy exports of the country, due to substantial foreign exchange reserves).

15. *With high extraction rates and average hydrocarbon reserves relatively low compared to other oil-rich countries, the need to diversify its economy and prepare for the "post-oil" era is pressing for Algeria.* The reserves to production ratio for crude oil and natural gas are now estimated at 16.7 years and 52.1 years respectively⁸. Figure 7 shows how the reserves to production ratio in Algeria is similar to that of Syria and far less than in Nigeria or Libya, as Algeria seems to be following a rapid extraction policy.

B. Oil and Diversification

16. *While the non-oil economy has been growing at a steady pace, there are concerns about the content of this growth and its sustainability.* Effective diversification and stronger private sector growth are essential to sustain growth in the medium term and to generate employment and income opportunities for the rapidly growing labor force. Even if the recent growth performance is relatively strong, the nature of sectoral growth in the non-hydrocarbon sector needs to change to enable the Algerian economy to generate enough quality jobs and to sustain growth rates that are more immune to oil price shocks. High labor force growth (3% per year) adds additional pressure and requires reforms that elicit a strong private sector response to generate the quality employment and income opportunities that the country needs. So far, growth has taken place mostly in sectors of low value added, generating unskilled, low-paying jobs. While unemployment dropped significantly, it remains high among women, the youth and the educated, and there is a significant mismatch between demand and supply of labor. Also, growth has been strong mostly in sectors directly linked to the PIP (like construction), raising doubts about its sustainability. The ability of the Algerian economy to generate productivity increases and endogenous growth in the medium term remains a challenge. (Figure 8)

Figure 7: Crude oil and Natural gas production and crude oil proved reserves



Source: BP data

⁷ IMF estimates (2010).

⁸ BP Review statistics based on Government sources and published data. R/P ratio: reserves remaining at the end of any year divided by the production in that year provide the length of time that those remaining reserves would last if production were to continue at that rate. Remaining reserves data are an important constraint on analysis and, given the uncertainties, this can be used only as a broad guideline.

17. *The increase in oil and gas revenues over the decade did not contribute sufficiently to the necessary transformation of the economy, reducing incentive for further institutional and market-oriented reforms that the authorities had envisaged at the beginning of the decade. The institutional reforms and improvements to the business environment that the Authorities had introduced in the early 90s were delayed, with a negative impact on the pace of the transition towards a market economy and on the development of private investments. The decision to allocate very substantial resources earned from the oil windfall to the public*

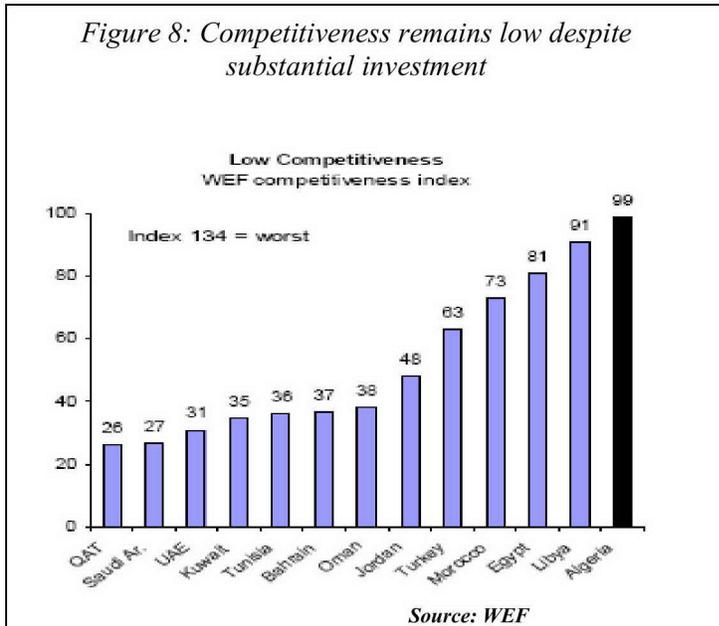
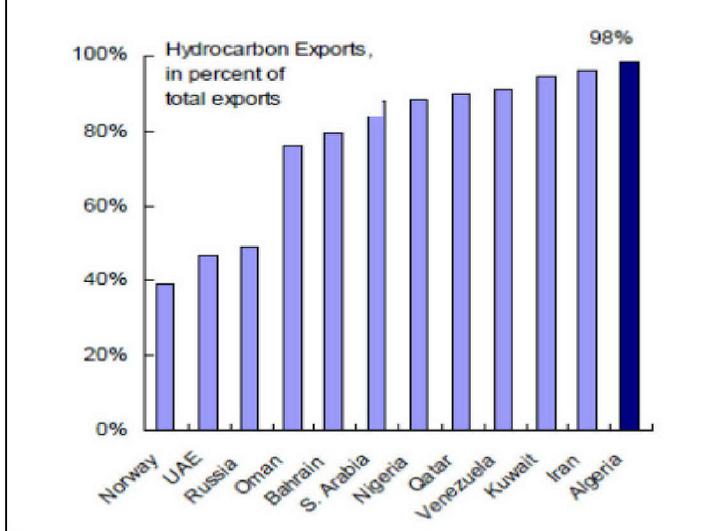


Figure 9: Algeria's dependence on hydrocarbons is high even for an oil economy



budget eventually shifted policy priorities away from structural, market-oriented reforms to the delivery of services to citizens through public investments. Institutional reforms lost momentum in most areas that require de-regulation, private sector involvement, and privatization.

18. *The economic policies adopted in Algeria so far have not succeeded to initiate a process of export diversification and private sector growth in new and competitive industries. Today, Algeria's exports are among the least diversified in the world (Figure 9). The major investments of the last decade to improve the infrastructure, expand access to services for citizens and to create a skilled work force were intended as the backbone of a diversification strategy that has yet to be fully formulated. The perspectives of the Algerian economy over the long-haul will depend on the ability of the Government to put in place policies that allow new enterprises to emerge, grow and benefit from infrastructure and social investments. Only then will the economic returns to all these investments fully materialize.*

19. *The policy environment needs to be further reformed to enable the Algerian economy to transform into a diversified, export-oriented and higher-value added production structure. Algeria will need to put in place the incentives and the economic environment to encourage firms and investors to engage in the country's economic transformation. This is necessary*

to reduce vulnerability to oil price volatility, and be able to generate endogenous growth driven by productivity improvements and competitiveness in world markets. The business and institutional environments affecting incentives of investors should be improved significantly, while continuing to invest in infrastructure and by a reduction in fiscal pressure which could not, by themselves, attract private investments. Faster progress in enhancing the investment climate is needed to increase private investment, in

particular FDI, foster more competition and raise productivity, especially among small and medium enterprises. Looking forward, these reforms should benefit from much higher priority.

20. *So far, these structural improvements to the investment climate have not progressed as envisaged since priority attention was given to the implementation of the public investment programs.* The necessary institutional and business-enabling reforms were high on the Government's agenda during the first part of the decade, and progress was made in some areas. But the reform momentum weakened with the rise of oil prices as priority was given to delivering the public investment programs and improvement of services to citizens (social housing, education, water, energy and health). Both the reform of State-owned enterprises and privatization programs made little progress. As did regulatory simplification, the reform of the commercial legal framework, industrial land reform and State-owned banks reform. To achieve sustained diversified growth Algeria should de-link economic reform from the availability of hydro-carbon resources.

21. *The impact of the recent shift in economic policies towards greater regulation of imports and FDIs, favoring explicitly local investors, remains unclear.* Over the past two years, the Government has enacted economic measures that partly reverse previous measures in favor of trade and investment openness. The new measures aim at reducing dependence on imports and strengthening local economic actors by more actively regulating foreign investment and foreign trade. There has also been an increased reliance on State-owned enterprises and public financial investment instruments to spur local investment and diversification. These new policies include: a limit of 49% ownership by foreign investors for all new FDI projects, with the option of maintaining management under the foreign partner; a preemption right of the Government in sales of FDI shares; the obligation for every FDI project to maintain a positive foreign exchange transfer balance over the life of the project (the cumulated outflows of dividends by FDI firms should be less than the cumulated inflows of cash invested), making it less profitable for a foreign investor to invest in Algeria, unless it exports a significant share of its production; preferential treatment to local firms in public procurement contracts, with the price advantage for local bidders increased in 2010 from 15% to 25%. Additionally, resorting to international bidding is made more difficult when local producers are available and adjustments were made to the regulatory framework for trade, including the obligation to use the letter of credit as the exclusive payment instrument⁹.

22. *The impact of these measures in Algeria is as yet unclear, but international experience shows that short of deeper reforms of the business environment, the development of local firms, especially SMEs, will remain constrained and the positive impact the Government expects out of these new policies is unlikely to materialize.* Similar policies in other countries have often proven to be counterproductive when they lack complementary measures. For instance, favoring local firms and fostering local investments is unlikely to be reached if the pressing reforms of the business environment are not put in place, in particular in the areas of regulatory simplification, industrial land market reform, financial sector reform and the strengthening of the regulatory institutions implementing and enforcing the rules. Furthermore, progress in strengthening non-oil exports will require lowering logistics costs, which in Algeria are higher than in other MENA countries despite efforts to improve infrastructure¹⁰.

⁹ This measure was introduced as a way to reduce fraud by tracking imports, complementing measures already in place.

¹⁰ Algeria ranked 130th among 155 countries in the 2009 World Bank *Logistics Perception Index*, and 122nd among 183 countries in the Trading Across borders indicators of the 2010 *Doing Business* report.

C. Social and Vulnerability Outlook

23. *Social indicators have steadily improved over the five decades since independence, thanks to rising incomes and significant public investments in education and health.* Algeria is well on its way to meet the MDG targets with particularly strong gains in poverty reduction, universal education, and greater gender equality. Steady progress also continues to be made in improving health indicators and reducing the spread of HIV/AIDS. Still, Algeria ranks 104th among 182 countries in the United Nations Human Development Index¹¹. The 2010-2014 PIP includes an increased focus on health sector investments compared to previous plans. While there has been major progress towards gender equality in many areas, Algeria is still lagging behind other middle income countries in terms of women's economic and political empowerment, according to the United Nations 2009 Gender Empowerment Measure (GEM)¹². In terms of political representation in Government, women held only 7.7% of seats in the national parliament in 2009. The 2009 Constitutional provisions, that include measures to promote female political participation and representation, should improve the situation in the medium-term.

24. *Poverty rates have come down from the high levels of the 1990s.* The poverty rate has fallen from 14.1% in 1995 to 12.1% in 2000, and is expected to have declined further over the last decade as incomes and employment rose significantly¹³. Algeria is close to the eradication of extreme poverty. Poverty incidence depth and severity are more pronounced in rural areas. In 2008, the number of rural poor was estimated at around 10.5% of the population. The highest incidence of poverty is among people in mountainous areas in the northern part of the country (*Hauts Plateaux*) and in the South Saharan region—two regions that benefit from significant public investment plans with the objective to reduce spatial disparities.

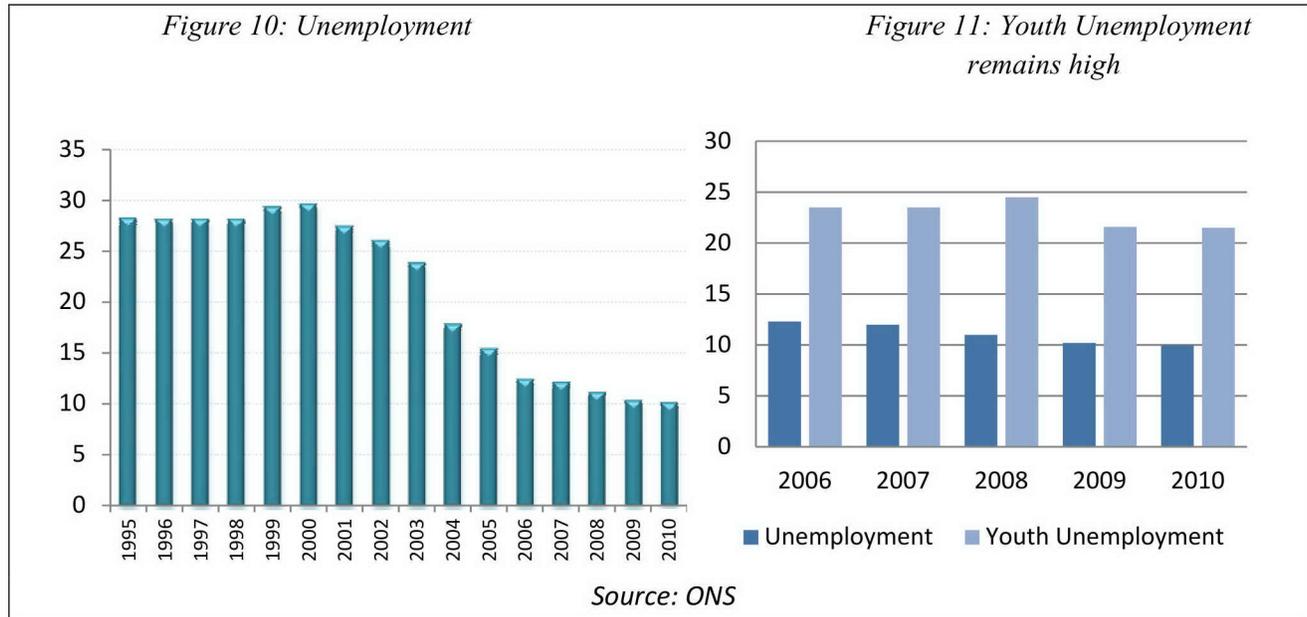
25. *Unemployment in Algeria has been decreasing steadily* from 29% in 2000, to 15.3% in 2005, and 10.2% at the end of 2009 (Figure 10)¹⁴. However, unemployment among women and the youth remains quite high (Figure 11). Also, the skills mismatch between the opportunities provided by the market and the supply of labor is a source of growing dissatisfaction among the educated youth.

¹¹ HDI measures three aspects of human development: (1) health measured by life expectancy; (2) education (measured by adult literacy and gross enrolment in education); and (3) standard of living (measured by purchasing power parity, PPP, income).

¹² GEM tracks the share of seats in parliament held by women; of female legislators, senior officials and managers; and of female professional and technical workers- and the gender disparity in earned income, reflecting economic independence.

¹³ A nationally-representative household survey will be launched by end of 2010, which will provide more recent estimates of the poverty rate.

¹⁴ Data are from the National Statistical Office, www.ons.dz



26. *Algeria's education system has made impressive gains since independence.* Primary education is universal and upper secondary and higher education enrollment rates have increased over time. Despite high expenditures on education, representing approximately 6% of GDP and 19% of Government outlays over the past decade, quality and alignment with the labor market demands need improvement. Gender gaps in educational enrollment have closed at primary, secondary, and tertiary levels, with women outnumbering men at the university level. However, educated women suffer higher rates of unemployment.

27. *Algeria's healthcare system has achieved impressive results in terms of access to services and improvement in health indicators.* Geographic access to health facilities stands at 98% of the population and the whole population has financial coverage for health care services. Life expectancy increased from 53.5 in 1970 to 74 years in 2008. Child mortality decreased from 134 per 100,000 in 1980 to 30 in 2008. In terms of gender equality, Algeria performs better than other countries in the region with respect to health indicators. Fertility rates declined dramatically from 4.6 births per woman in 1990 to 2.4 births per woman in 2007, which is lower than the MENA average. This is primarily due to the sharp increase in the average age of marriage to 26 and the contraceptive prevalence rate (61% in 2006 compared to 47% in 1992). Maternal mortality rate is now 180 deaths/100,000 live births, which is lower than the MENA average. The financial sustainability of the health system is, however, weakened by extensive benefits, inefficiencies in service provision, high cost of pharmaceuticals, and changing composition of illnesses due to health transition. In addition, the absence of a monitoring and evaluation system and critical data for decision-making makes it difficult to develop a sound national health strategy. The Government has started to address these shortcomings and is planning to invest substantively in capacity building for its human resources and in infrastructure.

28. *Algeria has a comprehensive social protection system including social insurance programs, active labor market policies, and social assistance programs.* Social safety net programs are a key component of Algeria's strategy to combat poverty and protect vulnerable population groups. Yet, they have evolved as ad-hoc transfers/subsidies with unclear mandates, arbitrary financing mechanisms, and weak management. There are also concerns that the active labor market policies (self-employment support, business creation subsidies, training programs, wage subsidies and public works) are not as effective as intended. The

Government is currently strengthening its capacity to better evaluate such policies—a first step towards the development of an integrated, modern framework of social protection.

D. Algeria's Regional Engagement

29. *Algeria has historically been an active and central player in regional issues, particularly in Africa and the Arab World.* It is a founding member of the NEPAD and is very active in the African Union on both economic and political issues. It is also a founding member of the Arab Maghreb Union, which has recently seen an increase in cooperation between the five member countries. Its strategic geographical location in the Mediterranean connecting Europe with Africa, and political stance as a partner in global peace and security initiatives makes it an important partner in various international fora. An Association Agreement (AA) with the European Union has been effective since 2005, representing the continued strategic importance attached by Europe to Algeria for its close historical and cultural ties, strategic source of energy and as an important ally in international security. The AA aims at a free trade zone between Algeria and the EU by 2017.

30. *With the return of internal stability at the end of the nineties, Algeria returned actively to the international arena and spearheaded a number of regional initiatives aiming at increasing economic integration in the Maghreb and with Sub-Saharan Africa.* Recent projects and initiatives that reflect this regional re-engagement include:

- The soon-to-be-completed 1,216 km-long East-West highway project which connects Algeria to the east with the Tunisian border and to the west with the Moroccan border and links up to the highway networks of both countries. A parallel project in the rail sector should double the capacity of the East-West railway line. In the longer-term, Nouakchott will be linked to Tripoli by a continuous web of highways across the five countries of the Arab Maghreb Union.
- In energy, a 400 kV electric line between Algeria and Morocco was inaugurated in 2009, adding to existing two lower-power lines and lines connecting with Tunisia and Libya. Ultimately, the goal is to foster the development of a regional electricity market with interconnections to Europe's grid.
- On the North-South side, the Algiers-Lagos road through Niger is completed for the Algeria and Nigeria parts. A pipeline and fiber-optic line is planned to be installed parallel to the Algiers-Lagos axis (NEPAD initiative).
- Another example of Maghreb-wide initiatives was the 2010 launch at a Maghreb ministerial meeting in Algiers of the Maghreb Investment Bank with headquarters in Tunis.

To foster its integration to global markets, Algeria has made great strides in opening-up to foreign trade and foreign investment, even if the recent economic policies partly reverse these achievements. Algeria's main international anchors to trade liberalization are its Association Agreement with the European Union and its 2005 membership of the Pan-Arab Free Trade Agreement (PAFTA). Advancing towards WTO accession can be another important catalyst to improving competitiveness, though the process has been stalled for some years as negotiations on points like the pricing of natural gas for local industry continue to be difficult. Independently of its international trade agreements, Algeria has significantly reduced tariffs over the past decade and has opened its economy to trade and FDI, before partially reversing these policies during the past two years. The expected impact of trade liberalization on the local economy of these measures is yet to materialize, explaining in part the recent policy reversals, as openness is perceived as not having delivered on its promises.

III. THE GOVERNMENT'S PROGRAM AND IMPLEMENTATION CHALLENGES

31. *After the Presidential election of April 2009, the Government announced a new five-year program which focused around three themes: (1) promoting economic development by focusing on infrastructure investments and economic diversification policies, (2) improving services to citizens, access to housing and human development, particularly in health and education, while reducing spatial disparities and mitigating the environmental impact of growth, and (3) strengthening good governance and the institutional basis for economic growth.*

32. *To create the necessary conditions for economic development, the Government agenda seeks to: (i) reform and modernize the justice system and the public administration; (ii) decentralize decision-making and strengthen local authorities, in the context of the roll-out of a regional and urban planning master plan; (iii) further develop physical infrastructure and improve citizens access to housing, water, energy and basic services; and (iv) improve of the capacity of the State as a regulator of economic activity and pursue the modernization of the financial sector.*

33. *To foster economic diversification, the Government plans to implement a series of sector-specific strategies, in particular in agriculture and agro-industry, tourism, mining and energy, ICT (e-Algeria) and selected manufacturing sectors. In addition, the strategy includes cross-sectoral support to small and medium enterprises and the development of innovation and entrepreneurship. The authorities emphasize that no economic diversification is possible without developing human capital and maintaining national solidarity. It hence gives particular attention to further improvement in education, housing conditions, health and education, food and energy security, and social protection programs.*

34. *The vision of the Government is anchored on self-standing sector strategies, some of which are already under implementation. These include: agriculture, environment, industry, and e-Algeria. In addition, the Government is considering articulating a comprehensive diversification strategy that builds on the evaluation of achievements under the current initiatives and seeks to benefit from the synergy across the various interventions. The Council of Ministers approved the PIP for 2010-2014 in May 2010 for US\$286 billion equivalent. The PIP finances investments in support of infrastructure development, human development, the knowledge economy and employment generation via economic diversification. Investments for on-going projects carried over from the previous five-year plan will amount to US\$130 billion (including ongoing investment projects in roads and railway development, education and university facilities, health facilities, housing, household connections to the natural gas and electricity networks, water supply network improvements and dams, desalination plants, and youth and sports facilities). Financing of new projects amount to US\$156 billion and will be targeted to infrastructure development (road and railway networks, ports, public transportation, airport infrastructure, local services); economic diversification through support for SMEs, industrial parks, entrepreneurship and innovation and access to credit; and improved access to basic services for citizens (health, water, education, etc.) and human capital development (knowledge economy, universities, research and development).*

35. *The authorities acknowledge that the implementation of the Government program faces important challenges, and significant emphasis has been put into strengthening policy design and project implementation capacities. A dedicated institution has been put in place to this effect the National Fund for Infrastructure and Development (CNED in French) and the prerogatives of existing oversight institutions have been strengthened, most notably the General Inspectorate of Finances. Implementation of the government program also faces the challenges of policy coordination; preparing for the implications of growth and economic transformation in terms of widening spatial disparities and environmental degradation; and, finally, improving the quality of planning and evaluation functions of the government. These three key areas of policy-making will be central in the success of the overall government program. It is precisely in these three areas that the Bank will focus its support during the course of the CPS.*

36. *Enabling the structural transformation of the economy requires strong inter-agency coordination to implement a complementary set of policies to improve the investment climate.* The thrust of that effort should seek to facilitate doing business in Algeria—in particular in the areas of regulatory environment, banking reform, industrial land markets and opening-up new spaces for private investment, in services in particular, and a reinforcement of the institutional framework in support of economic policies. The regulatory functions of the State will need to be strengthened; the administration providing services to firms and investors will need to be further upgraded (customs, export support agency, tax authority, investment agency); the policy-making framework will need to be reinforced (consultation processes, planning and evaluation functions, information systems and statistics); the capacity to implement proactive interventions (like industrial strategies or export support schemes) will need to be improved in terms of effectiveness, evaluation and accountability; and market institutions (like the judiciary or regulatory agencies) should be made more effective and independent.

37. *Sustained growth and economic transformation have implications in terms of spatial disparities and the environment that need to be addressed.* The vision of a more equitable Algeria requires reducing spatial disparities and ensuring a sustainable development path. In addition to the persistent water scarcity issue, Algeria increasingly faces environment challenges given the rapid urbanization of the country and the strong growth rates over the past decades. Also, disparities between urban and rural areas and across the various regions of the country remain an issue, and these may widen unless proactive policies are put in place in the context of the Regional Planning Master Plan 2020 (SNAT in the French acronym). In addition, Algeria is vulnerable to natural shocks, having experienced severe earthquakes within the last decades, as well as flooding. The country has developed strategies in these areas and faces now the challenge of implementation.

38. *Finally, the planning and evaluation functions of the Government need to be strengthened to ensure better policy design as well as effective monitoring and evaluation of policies that are being implemented.* The effectiveness and the development impact of the two sizeable public investments plans launched since 2001, remain to be evaluated beyond their impact on unemployment and growth outside of hydrocarbons (as the 2008 PER pointed out, the PIP lacks for the most part a strategic Results Matrix). In addition, sector strategies are the responsibility of Ministries and state agencies that are concerned and dependent on the initiative they take. Coordination across sectors needs to be improved. Effective public institutions are also central for the success of any economic diversification strategy. This calls for improving the evaluation capacity in order to better assess the programs, realign their priorities, if needed, and correct, or cease, failing interventions and ineffective investments. In response to these challenges, the Government is implementing numerous policies and interventions that merit careful monitoring and evaluation, in particular trade and investment policies, interventions to support SMEs, innovation and selected industrial sectors, and social transfers. In support of its policy planning and evaluation functions, the Government is also strengthening its statistical capacity.

IV. LESSONS FROM THE RECENT WORLD BANK GROUP ENGAGEMENT IN ALGERIA

39. *The availability of substantial additional oil revenues had a fundamental impact on the implementation of the FY04-06 CAS.* First, the rapid increase in the price of oil and gas, and the ensuing increases in revenues, led the authorities to implement a non-borrowing policy and to cancel existing debt. Hence, no new Bank lending took place during the previous CAS period and most of the operations under implementation were cancelled or their size reduced ahead of closing. With no lending operations feasible and no RTA yet in place, the opportunities for cooperation with the different sectors became very limited. Moreover, the Government launched a large Public Investment Program which required increased attention of sectoral ministries on its design and its implementation. The focus and drive for institutional and regulatory reforms hence decreased in most sectors.

40. *Despite these unexpected changes, the CAS program made notable contributions, in part because the Government continued to implement using its own budget resources, projects that had been started under the CAS and for which the IBRD loans were later cancelled.* The CAS program had a positive impact in the financial sector, in rural development, in telecommunications, and in the water sector. In these areas, the Government continued implementing the program envisaged under the CAS through its own budget. Support was also provided through technical assistance, some of which were later on financed by the Government using the RTA instrument. Other partners, particularly the European Commission, financed programs that had been planned in the CAS or designed with Bank support, for example in education and privatization. IEG rated as satisfactory or moderately satisfactory seven operations completed during the CAS period, despite substantial cancellations. These operations include the financial sector, telecommunications, rural development, industrial pollution, mortgage market development and post-earthquake reconstruction. Only one project was pursued until the end of the CAS period—the public expenditure management project—, but its highly ambitious initial design had to be revised at mid-term. The ICR rated this project as moderately unsatisfactory as it only partly delivered the results expected after restructuring. The 2004 CAS fell short of expectations in the energy and transport sectors, where the agenda supported proved excessively ambitious, even under the most propitious of circumstances (IEG rated two projects in these areas as unsatisfactory).

41. *The CAS Progress Report (2006) foresaw a shift of strategy that took time to implement.* In response to the policy stance of the Government on foreign debt, the CAS Progress Report suggested to broadly maintain the areas of engagement, but emphasized delivery through non lending instruments, such as reimbursable technical assistance and Bank financed advisory services and studies. In the remaining years of the CAS implementation up to today, the authorities and the Bank attempted to develop new modalities of engagement. This helped the partners come to an operational understanding of the RTA instrument and of the circumstances under which this is likely to be most effective. These include the provision of complementary AAA, a committed Bank team that maintains continued presence, a strong and capable counterpart, and a multiannual framework of cooperation. Since 2004, the Bank and the Government have signed seven RTA contracts and all have been completed. (Table 1)

42. *Notwithstanding the difficult operating environment for the private sector, IFC has been able to increase its program in Algeria over the previous CAS period.* A key lesson is the value of having a strong local presence and dedicated business development teams on the ground. If some of the key impediments to private sector growth are removed, IFC, with its decentralized structure, is in a position to increase its advisory and investment program to help unleash the potential of the private sector in Algeria.

Table 1: List of Approved RTAs

<i>Activity</i>	<i>Year approved</i>
Support on improving internal procurement system -SONATRACH	FY05
Preparation of standard procurement documents - SONATRACH	FY05
Institutional Support for the Design of Management Contracts – Water Agency	FY08
Public Investment Project Evaluation - <i>Caisse Nationale d'Equipement et de Développement</i> (CNED)	FY08
* Establishment of a Credit Registry – Bank of Algeria	FY08
* Institutional support to National Agency on Climate Change in Municipal Solid Waste – Ministry of Environment	FY08
* Institutional support to National Agency on Climate Change on the Rehabilitation of Unauthorized Dumpsites – Ministry of Environment	FY09

Note: (*) RTA under implementation and nearing completion.

43. *Continued engagement in Algeria should be driven by the pace of progress set by the authorities, in order to maintain realistic expectations.* A 2007 QAG assessment of Algeria's AAA activities provided a first stock-taking of the RTA approach, which the CAS Completion Report confirmed. A lesson learnt is that the Bank can have positive contributions in Algeria, but that expectation of broad impact should be tamed and replaced by a precise description of the outcomes of the engagement, the complementary work to be carried out by the authorities, and the impact that both can jointly deliver. The overall slow pace of reform reflects the difficult transition from planned to market economy, and the disincentive that large hydrocarbon revenues play on the reform momentum. Providing timely technical advice of high quality - with no pre-conceived solutions or dogmatic stance - in response to clear demands by the authorities is the most likely route to have impact.

44. *Fee-based services supported by selective Bank-financed analytical work has proved to offer the flexibility and timeliness to respond to Government's requests for advice and to adapt to the pace of reforms and changing priorities.* The overall conclusion is that the RTAs have contributed to: (i) maintaining an active dialogue with sectoral partners; (ii) providing technical assistance to support the Government reform agenda; and (iii) complementing larger Government programs with high level advice. This experience indicates that despite the limited financial scope of the RTA instrument, when a strategic selection of the areas of intervention is made, RTAs can have a large impact and help leverage the Government's reform agenda.

45. *The filtering of activities conducted jointly by the Government and the Bank will have to remain in place throughout CPS implementation to ensure selection of priority actions included in the Government's program and supported by counterpart teams.* Implementation of RTA programs so far shows that effectiveness depends on the support, quality, and continuous engagement of the local teams, as sporadic interventions have not produced results. The success of the RTA approach will however depend on the extent to which there is ex-ante clarity between the Bank and the Government, and within the Bank, on the relevance of the action, the objectives of the interventions, the success indicators, and the method of execution. Another lesson is that the Bank should subject all tasks to a quality enhancing and control process to ensure delivery of quality products, and should keep expectations realistic.

46. *Despite the limited opportunities afforded by the RTA instrument, which is demand driven by nature, the Bank can still maintain a pro-active position.* The Bank can play an active advocacy role in various ways.

As a key knowledge institution, it can provide access to research and best practice in the design and delivery of policy reforms in similar contexts around the world. The Bank can also play an active role in linking Algeria to regional and global initiatives.

V. COUNTRY PARTNERSHIP STRATEGY

47. *An intense dialogue between the Algerian authorities, led by the Ministry of Finance, and the World Bank Group in the course of 2009 and 2010 has identified the core areas of engagement for the CPS.* The dialogue has served to fill the gap in information arising from the limited presence of the Bank in the country and has contributed to a solid appreciation of the Government's strategic objectives, program designs and implementation plans. This was necessary to articulate the CPS areas of intervention over a four-year span.

48. *The main instrument to support the Government's program will be the RTA, complemented by selected analytical products financed by the Bank budget.* The CPS describes the areas of intervention and the activities that are under discussion, while recognizing that the flexible nature of the Bank's engagement means that these activities still require time to be defined in scope, timing and budget. Dialogue between the partners during implementation of the CPS will continue to identify new RTA operations, within the framework set by this CPS. The Results Matrix (RM) reflects only RTA and other activities (defined as Tier 1 activities in Appendix 1a) that are already well defined and that have been firmly agreed and budget. The list of Tier 2 activities (Appendix 1b) remains to be confirmed and further developed. It will be updated regularly as new needs arise and priorities are reassessed. Outcomes and indicators will be defined for these activities as they move to the Tier 1 category.

49. *The CPS Results Matrix has been adjusted to circumstances where the program is small, AAA intensive and focused mostly on institution building.* The September 2009 CAS Retrospective highlighted the challenges of designing and tracking Results Matrices in such instances where the Bank program is small and limited to AAA¹⁵. In these circumstances, not only are the outcomes of the technical assistance hard to specify but the link between the technical assistance and the final development outcomes is heavily dependent on the timing and scope of the Government's efforts. Claims of attribution can be difficult to justify. In addition, in the case of Algeria, the focus of the CPS program lies in part on capacity building at the institutional level, which makes it inherently hard to measure. This CPS recognizes these challenges and addresses them by, first, identifying the expected output (intermediate indicators) of each confirmed activity and the link with the corresponding Government institutional building program. Second, the Government and the Bank teams will monitor implementation progress in each of the areas of engagement under the CPS. Lastly, completion reports of each RTA activity will be prepared to assess the evaluation of the contribution of the program to the development efforts of the country under each results area.

A. The Principles for World Bank's Engagement

50. *The CPS program consists of analytic, advisory and technical assistance activities aimed at the implementation of the Government program.* As Algeria plans to continue its policy of maintaining low external debt and does not plan to borrow during the period of the CPS, the country proposes to channel Bank support mainly through the modality of RTA, supported by the Bank administrative budget and by Trust Fund resources, to the extent that these can be made available to Algeria.

51. *Responsiveness, coherence, and selectivity are the guidance principles of the Bank's action under this CPS.* While the experience in Algeria and within the Bank with fee-based services is not new, RTAs will

¹⁵ Country Assistance Strategies: Retrospective and Future Directions OPCS, September 1, 2009.

in the future be developed within the strategic framework provided by the CPS. The Bank will respond to the demands of assistance by the authorities selectively and take into account its own capacity to deliver. The Government, the Ministry of Finance in particular, will filter demands from the sector ministries and agencies to make sure that the RTAs proposed to the Bank are aligned with the national agenda, are budgeted, and are included in the multiannual Government program. Under the CPS it is planned to employ a standard RTA model contract which will reflect experience in implementing RTAs in Algeria so far. This model has been developed over the course of the CPS preparation, in consultation with the government stakeholders. Its objective is to offer a standard, ready-to-use model contract, to avoid the need for lengthy negotiations for each individual RTA activity.

52. *The Bank will strategically use its own funds to complement the program in various ways.* First, Bank budget will be used to deliver timely technical support in priority areas, while the corresponding RTAs come into place. Second, the Bank can use its own resources to explore new areas of engagement, propose reform strategies, or conduct diagnostic and evaluation work of strategic importance, for which RTA resources have not been budgeted or would not be appropriate. The Bank will also use Trust Funds, where feasible. Under the more strategic framework permitted by the CPS, Algeria will have the opportunity to participate in global and regional initiatives. These include, among others, the global programs supported by the Marseille Center for Mediterranean Integration, the Mediterranean concentrated solar power initiative (CSP), infrastructure and trade studies, and activities developed under the Arab World Initiative. Algeria can make important contributions to these initiatives with its experience in energy and human development.

B. Consultation and Partnership

53. *The preparation of the CPS benefited from a long and careful process of consultations with Government counterparts and stakeholders.* The extensive discussions with Government stakeholders were coordinated by the Ministry of Finance, and involved three phases. Initially, most sector representatives were invited to information sessions where the CPS process and its main financing instrument, in particular the RTA, were discussed in detail. These included sector-specific discussions to assess the needs and the potential areas of collaboration. During a second phase, every sector proposed a list of activities and topics that could be the object of RTA support for inclusion under the CPS. Bank sectoral teams consulted every Ministry to identify the technical areas where the Bank had comparative advantage, where the proposed assistance would have most impact and would be the most relevant to Algeria's strategic objectives. Finally, Bank teams and sector-ministry teams had numerous sessions to define more precisely the content of the assistance in each area that was selected to be part of the CPS.

54. *Formal consultations with civil society, private sector representatives, think tanks and academia were held in February 2010, with the objectives of:* (i) informing the CPS preparation process with a deeper understanding of Algeria's development challenges; (ii) sharing with non-Governmental organizations and civil society representatives the content of the proposed collaboration with the Government of Algeria; and (iii) collecting feedback on the relevance of the program. In addition to this formal one-day event, consultations took place over the past year, where think tanks, entrepreneurs, academia, press representatives and other civil society members were regularly invited at numerous gatherings to discuss the current Government strategies, the development challenges that Algeria faces and the policy gaps. The key lessons that can be drawn from these consultations can be summarized as follows:

- (i) The areas of intervention proposed by the CPS program are in line with what both Government and civil society think needs to be strengthened, even if their respective views on current policies differ. All agree on the need to diversify the economy and strengthen growth, in particular in sectors like agriculture, industry and tourism. Improved policy formulation and evaluation capacity, including statistical capacity and better information

sharing, is also a theme that was repeatedly highlighted as a priority during these consultations.

- (ii) Private sector representatives are mostly critical of the current economic policies related to investment and trade. While many would like to see a number of current policies reversed, all insist on the need to strengthen the capacity to evaluate policies in order to inform future policy changes when they're warranted. The agreed activities in the business environment area of the CPS respond to these shared concerns: support to policy evaluation, technical assistance work to improve the regulatory environment, and review of enterprise support policies all respond to the need of a pragmatic, evidence-based analytical support to the authorities.
- (iii) The quality of the exchanges during all consultations reflects positively on the level of openness possible in Algeria, in public policy debates. The variety of views expressed publicly on the Government's economic policies represents an important and useful feedback for Government. It also testifies to the potential and usefulness of further structuring and engaging in public-private dialogue and consultations.

55. *Algeria takes the lead in the dialogue with its cooperation partners.* The Bank regularly consults and coordinates with other active partners and seeks to cooperate and complement the activities financed by them, in particular with the European Commission which has an active grant program in almost all economic and social sectors. The African Development Bank recently opened a field office in Algiers and is preparing a program of technical assistance using its Middle-Income Country Technical Assistance Fund. Collaboration with these two institutions will be actively sought during the CPS period, and is encouraged by the Algerian authorities.

C. The Country Partnership Strategy Program

56. The CPS aims to support the Government of Algeria design and implement policies that will help the economy in its transition to a new, sustainable and balanced growth model, based on private-led economic diversification. The main benefit of such a strategy would be to create more and better employment opportunities. The Bank's interventions under the CPS focus around three areas that support the Government objectives (see Appendix 5 for details):

- I. **Strengthening Growth through Diversification of the Economy**, including support to the implementation of the agricultural and rural development strategy, improving the investment climate, in particular for SMEs, and modernizing the financial and banking sector.
- II. **Promoting Sustainable Development and Reducing Spatial Disparities**, including technical assistance to implement environment protection initiatives, as well as technical support to Government programs aiming at reducing spatial disparities, such as the development of competitiveness centers or ecotourism projects.
- III. **Strengthening the Institutions of Economic Planning, Monitoring, Evaluation and Policy-Making**, in particular by providing technical support to strengthen the planning, monitoring and evaluation capacity of various sectors in the Government and their statistical capacity, as well as the capacity to conduct impact evaluations of public interventions.

57. *In each of these three areas, activities have been identified through the consultation process with the authorities.* In some areas, TAs/RTAs are already ongoing (e.g. environment and financial sector), others are ready to be implemented (e.g. agriculture), and some are envisaged to be identified and prepared over the course of the CPS. Technical assistance activities financed on the Bank budget are also ongoing or planned

for the coming years. Some of this work may eventually lead to the preparation of new RTAs. The details provided below under each area of intervention reflect the current status of the dialogue with each ministry. Table 2 below reflects the extent of engagement in each area.

58. *Given the flexible nature of the CPS engagement, it is expected that new activities will develop over the course of the program within these three broad areas of cooperation.* For example, activities in support of better planning, monitoring and evaluation may develop in the infrastructure or human development sectors and they would belong to the third pillar, inherently cross-sectoral.

Table 2: CPS Program Areas of Activity

	CPS Areas of Intervention		
	I. Growth, and diversification	II. Sustainable development and reduction of spatial disparities	III. Planning, evaluation and policy making
Program Areas defined			
Financial sector	•		
Macroeconomic analysis	•		•
Reserves management			•
Rural strategy	•	•	
Agribusiness strategy	•	•	
Statistical support in agriculture	•		•
Strategy formulation	•		•
Capacity building of the National Statistical Office	•		•
Governance of the public sector Banks	•		
Evaluation of public programs	•		•
Program Areas currently under preparation			
Business environment	•		
Budget modernization	•		•
SME support	•		
Telecommunications	•		
Ecotourism	•	•	
Competitiveness poles		•	
Rural finance	•	•	

Area of intervention I: Strengthening Growth through Diversification of the Economy

59. *Since 2000, Algeria has worked on the diversification of its economy with mixed success.* While the private sector has grown over the past decades, and now represents more than 75% of non-hydrocarbon value-added, Algeria has yet to develop a private sector competitive in global markets and that creates quality jobs. The 2009 Government program reiterates the commitment to diversification and emphasizes increases in productivity through innovation. The CPS program seeks to help the Government consolidate diversification efforts and support employment generation, by promoting pilot actions in agriculture, rural development, and eco-tourism, supporting the modernization of the financial sector and improving the business environment. The current Government program also includes selected strategies for industrial zone

development, SME support, banking sector reform and development of physical infrastructure. The authorities propose to work with the Bank to develop a coherent economic diversification strategy within the coming years. The Bank will center its diversification program around a high-level policy dialogue, in coordination with the IMF, building on the experience of other countries who have successfully diversified out of oil.

I.1 Developing a Sound and Stable Financial Sector

60. *The Government strategy points to improvements in the financial sector as fundamental to the transformation of the economy.* The concerns of the Central Bank and the Ministry of Finance focus on the stability of the sector, the need to modernize the public banks and increase access to finance by small and medium enterprises. The strategy to improve the efficiency of the banking system includes strengthening governance across the banking system to address risk management, internal audit, and accountability issues. As the bulk of the banking sector remains public, improving governance and protecting against fiscal risks is one of the priorities of the Government. The Ministry of Finance will strengthen its monitoring and supervision tools for state owned banks and will put in place the measures necessary to improve SoBs intermediation capacity. The Bank will continue to support the Bank of Algeria in its efforts to strengthen the management tools of financial crises, improving banking supervision, establishing a modern and efficient system of credit information and strengthening information security.

61. The Ministry of Finance and the Central Bank have requested the Bank to continue to assist in financial sector reforms, within the platform provided by the recommendations of the 2003 FSAP, its 2007 update, two TA activities and one RTA (all three delivered). In addition, the Bank plans to assist the Ministry of Finance assess the current structure of banking oversight of state-owned banks, share lessons learned in other countries in the same reform agenda and support the implementation of the related action-plan. The program should include the following four new RTAs:

- (i) Following the RTA aimed at implementing a Central Credit Registry at the Central Bank (completed), the Bank plans to assist the Central Bank with a modern credit registry that fosters access to finance for firms (especially SMEs) and households, which should be fully operational by the end of the CPS period.
- (ii) Improvement of financial crisis preparedness. The testing of the preparedness framework in May 2010 helped identify strengths and weaknesses of the financial crisis arrangements in a period of simulated financial sector turbulence. Further improvements to the framework will be required to minimize risks to financial stability and fiscal costs.
- (iii) Strengthening of banking sector supervision. The Bank plans to identify areas where banking supervision can be improved (both on on-site and off-site supervision) and assist the Central Bank in implementing an action plan.
- (iv) Formalizing the Information Security function of the Central Bank, to assist in establishing a formal Information Security function and strengthen its business continuity program with a focus on its Payment Systems, including with the establishment of an Information Security Office, and the creation of a business-driven business continuity plan.

62. *The IFC will continue to build on its existing financial sector program in the upcoming CPS period.* The IFC has helped develop Algeria's financial sector by taking equity investments in new private banks, and was instrumental in establishing the first leasing company in the country. The IFC's investments in private equity funds that target SMEs in the Maghreb have also facilitated increased access to finance for SMEs in Algeria. The IFC investments have been complemented by a strong program of Advisory Services in the areas of risk management, SME financing, corporate governance, among others. In the upcoming CPS period, IFC is looking at investments in insurance and microfinance and will continue to explore the possibility of establishing a microfinance institution. A market study, commissioned by the IFC and shared

with the Central Bank and Ministry of Finance, has helped shape a business plan for a commercial microfinance institution. However, this process has been constrained due to the new regulations issued by the Central Bank requiring an increase in the capital of banks and non-bank financial institutions.

I.2 Strengthening Agricultural Growth and Rural Development

63. The Algerian authorities assign a high priority to rural development and the modernization of agriculture as part of a strategy to raise rural incomes and to diversify economic activity. Previous Bank work on rural development in Algeria has been rated as successful, especially because of its contribution to employment generation in rural areas. During this CPS, the Bank will work with the Ministry of Agriculture (MADR) in implementing the Agriculture and Rural Development Strategy, which has two priority programs: (i) the Rural Renewal Support Program (PSRR) and (ii) the Agricultural Economy Renewal Program (PREA). The PSRR aims at a harmonized development of the Algerian rural regions, with a view to enhance their complementarities and ensure social cohesion. The PREA aims at improving food security in Algeria through: (i) the promotion of an enabling and stable environment (fiscal incentives, strengthening of professional organizations); (ii) implementation of a regulatory system for mass consumption of food products so as to better match supply and demand; and (iii) production intensification based on a supply chain approach for strategic products.

64. The MADR has asked for Bank's support through three RTAs to be implemented in several phases to:

- (i) Support the Rural Renewal Support Program. Bank's assistance through this RTA will have the objective of strengthening the capacity of all partners involved in the design, implementation, supervision and monitoring and evaluation of the PSRR through an integrated and participatory approach. This will include the development of a tailored Monitoring and Evaluation system (M&E) for the PSRR, the assessment of current human resource capacity, the definition of a comprehensive training program for staff, the design and deployment of a communication plan to inform the Ministry's staff and targeted beneficiaries of the Ministry's policies of the new programs; and to support the Department of Forestry (*Direction Générale des Forêts, DGF*) in executing and supervising the PSRR nationwide;
- (ii) Assist the MADR in selecting, and later creating, fully integrated agriculture development zones (Integrated Agro-Food Centers (*Pôles Agro alimentaires Intégrés*)) in selected strategic sectors, bringing together all concerned stakeholders (farmers, agro-industries, markets, financial institutions, Research and Development centers, and ITC agencies) in a pilot activity to attain concrete results, that can be replicated in other sectors. The aim of the authorities is to have 3 pilot poles over the next three years. This project will involve the State Pilot Farms for which management will be delegated to public and private operators based on relevant legislation. Private enterprises will also be called in to participate in the creation of PAIs; and
- (iii) Support to the development of agricultural statistics, information systems and monitoring and evaluation (SASISE). The technical assistance will include three components: (i) the Bank will support the development of agricultural statistics with an RTA in conjunction with a trust fund under the Trust Fund for Statistical Capacity Building (TFSCB). (ii) A second component of the technical assistance aims at strengthening the information systems of the Rural Renewal Support Program and to bridge the two main information systems with a view to consolidating them into an Agricultural and Rural (SIAR). In addition, the technical assistance will support the identification of information systems to be set up to integrate the

functions of design, management (including financial), of monitoring and evaluation of projects and programs. (iii) In monitoring and evaluation, the technical assistance will address the creation of systems similar to the monitoring and evaluation systems of the PSRR and of the PAI to cover the entire program of renewal of the agricultural economy.

I.3 Improving the Business Environment and Strengthening Economic Diversification

65. *The Algerian Government seeks to foster an investment climate that opens opportunities for new business and contributes to competitive diversification.* The action plan that develops this objective includes: (i) an industrial strategy focusing on the development of specialized industrial zones; (ii) grant-based technical assistance schemes to SMEs; (iii) public investment funds for SMEs completed by credit guarantee schemes; (iv) export support programs that include promotion activities abroad and targeted direct support to exporters; (v) an industrial land development strategy that would increase land market liquidity by placing idle land previously owned by State-owned enterprises; and (vi) other programs to improve the business environment such as customs and tax authority reforms, reduction in corporate taxes, and reform of the investment promotion agency.

66. *During this CPS the Bank support to the development and implementation of the business environment and economic diversification would, in a first phase include:*

- (i) Diagnostic study of existing export-promotion mechanisms. The Bank has been engaged in cooperation with the export promotion agency to assess the institutional efficiency of its export promotion fund, Algex, in the context of the Government's intent to strengthen import-substitution and foster exports.
- (ii) Technical assistance on simplifying regulatory requirements in key areas of the business environment. The CPS plans to support the Ministry of Finance and other ministries in the simplification of regulations in areas such as tax collection or property transfer. Likewise, monitoring and evaluation tools would be developed for the Government to monitor the investment climate with accuracy and evaluate the effectiveness of the industrial strategy of the SME programs. A short diagnostic study of the existing export-promotion programs and the institutional framework in which they are implemented is currently under implementation.

67. *The IFC has a clear role in the development of the private sector in Algeria, especially in providing comfort to international investors and helping to revitalize local private enterprises through investments, sharing of global best practices, and capacity building.* The IFC contribution to diversification includes supporting private sector investments in manufacturing, chemicals, infrastructure, and financial markets. IFC's strategy in Algeria focuses on (i) supporting improvements in the investment climate; (ii) assisting in the liberalization and privatization process; (iii) helping develop the financial sector, including housing finance and SMEs; (iv) helping strengthen the local private sector; and (v) encouraging private participation in infrastructure and IT. IFC's program in Algeria has picked up over the recent years,¹⁶ and it is anticipated that this trend will continue over the upcoming CPS cycle, if there are significant improvements in the investment climate, regulatory framework, and liberalization of the economy. The IFC is well placed to share its expertise in assisting Algeria to develop successful public-private partnerships in infrastructure.

¹⁶ With the opening of the IFC Algiers Office in 2005, the portfolio has increased from around US\$74 million in FY04 to US\$126 million in end-FY09. The committed portfolio declined to \$82million at end FY10 due to the closing of two projects.

I.4 Supporting the Development of the Telecom Sector, ICT and E-Government

68. *Algeria's reform of the telecom sector led to greater coverage and lower costs.* The Bank supported this process through several technical assistance operations and has continued to provide support and advice through its own budget in recent years. The postal and telecom regulatory authority (ARPT) is working on the modernization of its regulatory practices to allow Algerians access to the latest technologies and to develop regulatory tools in line with good international practices. The regulator has requested support, through an RTA, in three areas of its current work: (i) the development of a strategy and action plan to establish a certification department within ARPT; (ii) a strategy and action plan to increase broadband access in Algeria through a level playing field; and (iii) the development of postal regulatory tools. The modernization of the telecom services supports the Government's ICT policy laid out in e-Algeria 2013, which is expected to lead to a wave of reforms in the telecom sector and promote e-Government activities.

Area of intervention II: Promoting Sustainable Development and Reducing Spatial Disparities

69. *Growth and economic transformation in Algeria is having an impact on environmental degradation and the widening of spatial disparities.* The Government has been addressing both issues for some time. In the area of environment protection, the Bank will continue to support the Government in improving the institutional capacity-building of waste management. To reduce spatial disparities, Algeria is investing major resources to develop and intensify the highway network across the country, including in the highlands area whose economic and social development lags behind the rest of the country. Sector-specific strategies, targeting explicit geographical areas, complement such massive infrastructure undertakings. A Saharan ecotourism initiative is under design. The CPS program will provide institutional capacity building and technical assistance in support of the implementation of some of these sector-specific and region-specific strategies.

II.1 Strengthening Sustainable Development through Environment Protection

70. *Environmental protection is ranked as a high priority in Algeria.* Since 2002, the Government began putting in place a robust policy and legislative framework, including the 2002 National Environmental Action Plan (NEAP), the 2003 Environmental Law for Sustainable Development and an Environmental Impact Assessment compatible with the Environmental Law issued in 2008. The Bank has been an active participant both in helping set the institutional framework through AAA and through successful investment and technical assistance operations.

71. *During the CPS, the Bank will continue assisting Algeria to build further its institutional capacity to reduce environment risks and improve the quality of life of the populations located near high risk areas.* In addition, the Bank has been helping to build the capacity of the national agency for waste management through two RTAs recently completed. The IFC has also been helping its clients in Algeria conform to environmental best practice standards in some critical projects (cement and steel plants, fertilizers).

72. *Given Algeria's vulnerability, particularly to earthquakes, and its preparedness in responding to natural disasters, the active participation on regional economic and sector work would be very valuable.* The Bank could also support Algeria's efforts in updating disaster risk reduction and mitigation skills. A future partnership could focus on perfecting risks using instruments including risk insurance and catastrophe bonds, building on a 2003 Government's action on asset insurance and indemnification in case of natural disaster. However, much remains to be done to ensure the development of an adequate compensation system and to develop the pooling of risks from disasters.

73. *Energy, low carbon strategy and climate change mitigation.* The growth of Algeria's economy will continue to be shaped by developments in the energy sector. Over the two to three coming decades, the

country must maximize hydrocarbon revenues, while reducing the country's vulnerability to oil price volatility and preparing the economy for the post oil and gas era. The rapid growth in energy consumption and the heavy reliance on subsidized hydrocarbons will, in the long term, lead to a difficult tradeoff between domestic consumption and exports, and increase the burden on the budget. Making Algeria more energy efficient is therefore essential to ensure sustained growth without disruption to the post oil and gas era.

74. *As far as climate change mitigation is concerned, Algeria already made noticeable progress in phasing out fuels with higher impacts on the environment, by promoting natural gas and liquefied petroleum gases. Algeria intends to become a leading nation in the renewable sector, thanks to abundant endogenous resources (like solar energy) and through targeted policies. However, today's energy production is a high greenhouse gases (GHG) contributor and energy consumption is growing rapidly and there is a need to further limit GHG emissions to contribute to climate change mitigation. To address these challenges, the Government formulated a strategy based on several priority actions that included: (i) the development of the hydrocarbon potential and related increase in production and export capacity; (ii) the enhancement of the value of hydrocarbon exports, including through downstream integration, especially for natural gas; (iii) international deployment to increase the reserve base of oil and gas, and improve access to existing or emerging markets; (iv) the development of a performing energy infrastructure to meet the fast growing national demand for electricity, natural gas and petroleum products; and (v) the development of alternative energy resources, with special focus on solar.*

75. *The CPS will support the strategic planning unit ("Direction Prospective et Stratégies") of the Ministry of Energy of Mines in outlining a roadmap for future energy demand and the identification of adequate modeling tools, as well as an analysis of demand scenarios (including low carbon energy use, efficiency improvements, development of renewable energy, etc.). Further work could include a review of the country energy efficiency strategy, identification of barriers to investments and proposals for adjustments to the pricing/incentive framework to scale up energy efficiency and cogeneration investments, directly or through eligible financial intermediaries. The Bank could positively contribute on energy efficiency, development of renewable energy, reduction of carbon emissions, and private investment in the energy sector. Moreover, Algeria has joined the Bank's regional CSP scale-up initiative and has proposed three projects, for an amount of 220-230 MW, to the CTF Investment Plan.*

II.2 Spatial Development and Ecotourism

76. *Algeria's industrial strategy includes development of specialized industrial zones aiming at reducing regional imbalances by putting in place a local enabling environment to attract investors in certain sectors in the less privileged parts of the country. Similarly, the Ministry of Agriculture and Rural Development plans to develop Agribusiness Integrated Industrial Centers, and the Ministry of Tourism and Handicrafts has developed a master plan of Tourism Development Zones in all regions of Algeria. The proposed Bank support will consist of providing technical assistance (through RTA) to the Ministry of Territorial Administration and Environment (MATE) in assessing the viability of developing specific sectors and zones through the creation of adequate regulatory frameworks. The majority of the new activities in the environment sector are part of Tier 2.*

77. *Support to the establishment of competitiveness and excellence poles in the wilayas of Béjaïa, Sétif, Borj-Bou-Argeridj and M'sila. The Bank's assistance would focus on: (i) the feasibility of poles of excellence in the wilayas of Sétif, Bejaïa, Bourdj-Bor-Argeridj and M'sila, and (ii) the assessment of the potential of pre-identified industrial options; manufacturing of plastic products in Setif, biotechnology for the food industry in Bejaïa as well as Setif, electronics in Borj Bor-Argeridj and the development of new construction material in M'sila. The analysis would consist in an estimation of growth potential and impact on employment, and identification of complementary industrial and services activities. In addition, the RTA*

would include (iii) consultation with all stakeholders (local, national and international firms, local governing bodies, universities, research and training institutions, chambers of industry and professional/business); and (iv) assessing the institutional requirements for project implementation, including the mapping and identification of the Poles.

78. *The CPS will support MATE through operationalizing their strategy for improving tourism in the South.* This will be implemented through piloting desert ecotourism actions in four tourism centers in the South (Pôles Touristiques d'Excellence du Sud- Saharien, including Tassili N'Ajjer (Djanet), Ahaggar – Assekrem (Tamanrasset), Oasien (Ghardaïa) and Touat – Gourara (Timimoun – Tinerkouk, Taghit). The work will be supported through RTA and include: (i) identification of the potential touristic demand; (ii) identification of the menu of products to offer; (iii) assessment of infrastructure needs; and (iv) assessment of environmental impact. It is expected that by the end of the CPS at least one of the poles will be operational. IFC is also exploring possibilities of investing in few hotels and mixed real estate development.

Area of intervention III: Strengthening the Institutions of Economic Planning, Monitoring, Evaluation and Policy-Making

79. *Assistance in economic and social sectors monitoring.* Keenly aware of the need to enhance its planning capacity, in 2008 the Government created the General Commission for Planning and Forecast (CGPP), which was recently transformed into the Ministry of Forecast and Statistics (MPS). The new ministry still lacks an organizational structure, staff and technical capacity commensurate with its mandate. The CPS will support the new ministry in its endeavor, by providing technical assistance in the areas of: (i) macroeconomic forecasting; (ii) monitoring and evaluation of social and economic policies; and (iii) long-term strategy preparation. The aim is to strengthen the Ministry' capacity to enable it to lead the preparation of the country's long term social and economic strategy and to improve the Government's planning and evaluation functions. This support will initially consist of training and technical assistance in the areas of economic and social monitoring and impact evaluation. Follow-on work through RTAs is planned to support selected items of the preparation and implementation of a long-term social and economic strategy for Algeria. As part of its regular economic monitoring, the Bank will also help the MPS upgrade its capacity to carry out economic monitoring of macroeconomic developments, with emphasis on fiscal performance.

80. *Evaluation.* The Government assigns a high priority to the evaluation of public expenditure programs. The expectation is that the results of the evaluations and the upgraded capacity of Government agencies will provide valuable feedback to decide on the course of the Government programs. The CPS supports efforts at developing stronger capacities in the evaluation at the MPS. This will include capacity building activities to the Ministry teams in charge of the policy evaluation, including training seminar on monitoring and impact evaluation tools, and technical assistance in setting up the evaluation function. Initial work is on-going and may be followed by a RTA to conduct joint impact evaluation of selected policies.

81. *Support to improve the efficiency and the targeting in the delivery of social development programs.* The Ministry of National Solidarity and Family (MNSF), the Social Development Agency (ADS) as well as the National Agency for Microcredit Management (ANGEM), are evaluating their core social programs and have requested Bank support in strengthening their in-house capacity in monitoring and evaluation. These three institutions together are in charge of implementing social programs that amount to yearly outlays of more than US\$1.5 billion. Bank's support started in early 2010 with a technical workshop that helped assess the current monitoring and evaluation practices and discusses the most appropriate strategy going forward. Based on the results of this assessment, the Bank team and the Government have identified the main areas of a multi-year RTA program to strengthen evaluation practices and assist in the redesign of the current social assistance system under the responsibility of these three institutions.

82. *Assistance in the evaluation of the targeting efficiency of subsidies.* The Ministry of Finance also seeks to evaluate the efficiency of targeting its program of subsidies for basic commodities. This system is in place to protect consumers from price increases on certain products with a wide variety of use (milk and two types of wheat). The Ministry is concerned about the ability of the current system to properly target the intended population and its sustainability in view of the high fiscal burden such subsidies entail. The CPS will provide assistance to take stock on the present system and analyze alternative options for improvement, based on regional and worldwide experiences.

83. *Statistical Capacity Building TA and RTA to the National Statistical office.* The CPS includes technical support to the National Statistic Office (ONS) in the preparation of the (2010) household survey and its analysis, including by using LSMS (Living Standards Measurement Study) methodologies. The Bank will share best practices to design questionnaires that integrate household survey with living standards measurements, help with sampling design, support to data cleaning and quality control, and train ONS staff in data analysis and standardization of statistical presentations. Such support will be provided through a combination of Bank budget, for the immediate help with questionnaire preparation and sampling, and RTA for the evaluation and analysis of the results.

84. *Under the CPS the Bank will continue working with the National Economic and Social Council (CNES),* a government think-tank on economic and social issues which conducts regular evaluations of Government policies. The agenda for the CNES includes areas such as poverty, governance, small and medium enterprises, competition, knowledge economy and sustainable development. The scope for RTAs will be developed based on punctual demands to be received from the CNES.

85. *Macro-economic and Fiscal Policy.* To ensure successful macroeconomic management of the economy, the Bank will continue to support the strengthening of management of foreign reserves through two RTAs to the Bank of Algeria. The Government is actively engaged in the reform of its public administration system and the development of a modern public expenditure system is critical in this context. The authorities have confirmed that they are interested in the Bank to support in this area. The scope and modalities for such assistance will be explored during the CPS implementation.

D. Results

86. *Knowledge programs to strengthen institutional capacity.* The CPS presents a Results Matrix designed to deliver a demand-driven and knowledge-based program geared to strengthening the institutional capacity of the Government. In line with recommendations for MIC knowledge-based programs, the Results Matrix includes both the contribution of the RTA activities and the broader goals of Government programs they support. Given the small size of RTA financing in comparison to the Government's program, the development impact of the Bank interventions will depend heavily on the commitment, financing, and capacity of the Government initiatives. The CPS is aware of the challenge of measuring impact within the limited time-frame of each individual RTA and therefore includes several activities aiming to strengthen the Government's own methodologies and evaluating capacity of its programs. The Results Matrix has monitoring and evaluation capacity as one key outcome of the program, rather than the starting point to measure impact of Bank's activities.

87. *The Results Matrix is a living document.* The Results Matrix begins by detailing the results from activities the Government has invited the Bank to contribute to its strategic objectives and programs, but the partners expect to revise the document regularly as some activities are completed and new ones agreed upon. The CPS provides the overall framework that responds to the Government's demand for a long-term and flexible partnership developed around coherent strategic priorities and vetted by the Government upfront to avoid the emergence of ad-hoc and uncoordinated technical assistance activities. The results chain has been

identified only for the ongoing and first phase of activities (Tier 1), for which RTA tasks have already been fully agreed upon and scoping is completed or ongoing. For the second phase of the engagement, starting during the second year of CPS implementation (Tier 2 program), Milestones and Outputs will be defined based on the activities design, and the results chain will be formulated in line with the Government's Institutional Outcomes.

88. *Measuring performance.* The Government and Bank will undertake periodic (annual) updating of the Results Matrix as the programs evolve and the partners agree on new RTA operations. Specific implementation monitoring tools for each activity will be used for quality review and as an instrument to track progress in implementing milestones and outputs, jointly with the counterparts. In addition, the Bank will maintain records of deliverables and, to the extent feasible, of Government outcomes. In addition to the annual reviews of the program, the CPS Progress report will take stock of progress in two years and the partners will jointly decide on revisions to the framework presented in the CPS.

VI. RISKS AND CHALLENGES IN IMPLEMENTATION

89. *The collaboration between the Bank and Algeria will be one of the first based on a CPS resting solely on knowledge services.* It thus carries significant learning opportunities in its implementation and offers potential to be replicated in other countries. The main challenge of this approach is to effectively deliver development impact. Being strongly demand-driven and primarily client-financed, the impact of the program will depend on the pace at which government action supported by the CPS are actually implemented. To ensure that priority activities are targeted and that they have a development impact for the country, the Bank and the Government will put in place a process of systematic filtering RTA requests to ensure that they fit in the Government's strategic priorities, are sufficiently implementation-oriented, and carry significant developmental impact potential. This process of filtering has already been put in place during the selection of activities included in the Tier 1 of the CPS matrix and budget for these activities has already been allocated. It will continue to be implemented to ensure that the same selection process is used for activities selected in the course of CPS implementation. Additional assurances of the relevance of the program proposed also come from the fact that all RTAs proposed are linked to the Government's action plan and are itemized in the annual Budget Law. The flexibility offered by Bank-funded activities will allow the Government and the Bank to identify new areas of cooperation of strategic importance or to initiate analytical work that could lead to RTAs with high developmental impact. The annual review of the program will be a useful regular milestone to assess the overall content of the CPS being implemented, the relevance of its activities and their likely impact.

90. *This innovative CPS could also potentially face implementation challenges that both the Government and the Bank need to be prepared for.* There is growing, but still limited experience in the Bank to support the implementation of a country program exclusively grounded on RTA and AAAs. This CPS provides an opportunity for the Bank to develop a working model to operate in non-borrowing middle income countries. The CPS Progress Report will provide the first formal opportunity to take stock of the CPS implementation effectiveness. Progress under the CPS will be regularly monitored and discussed annually with the Government so as to take early remedial actions, if necessary. Annual progress reports will also be reviewed by the Bank's Regional Management Team.

91. *The implementation of the CPS program delivered through the RTA instrument may run into operational problems which could impair the success of the program.* Experience from some of the previously implemented RTAs has shown that in cases where there were disagreements between the parties, especially of an administrative and contractual nature, the Bank and the Government had to invest substantial time and effort to come to an agreement. The Bank had also encountered several delays in payment of

services under some RTAs. To reduce this risk, the Government has requested to prepare a standard RTA model agreement in line with Algerian law and Bank policies and guidelines. This framework is intended to facilitate both designing the RTAs and implementing them. The model agreement has been prepared and it was still under review by the Government at the time the CPS was finalized. Additional assurances of the relevance of the program proposed also come from the fact that all RTA proposed are linked to the Government strategies and investment plan and are financed through the budget. Moreover, the close involvement in the RTA identification and screening from the Ministry of Finance and its leadership in ensuring coordination and commitment among sectors should help ensure the coherence and facilitate the implementation of the program.

92. *Finally, advisory services make it more difficult to monitor outcomes and results.* Anticipating this difficulty, the CPS provides a tailored implementation Quality Monitoring Tool to carefully track progress in results and outcomes. Also, to cope with the implementation challenges of a program based mostly on RTA, the Bank's MENA region is putting in place standard procedures and quality assurance measures to guarantee the high quality of RTA products and to ensure uniformity in this instrument across the region. Only RTAs for which the Government has allocated budgetary resources will be confirmed, which should facilitate their effective implementation. Selectivity in identifying the RTA activities should ensure that adequate capacity, ownership and human resources are dedicated to their implementation, both on the Government and the Bank side. Finally, the Bank's presence in Algeria will be strengthened to increase the local oversight of the program implementation and continuous dialogue with the authorities.

Appendix 1a: Algeria Country Partnership Strategy FY11-FY14
Results Matrix for Tier 1: Ongoing and Confirmed Program

AREA OF INTERVENTION I – STRENGTHENING GROWTH THROUGH DIVERSIFICATION OF THE ECONOMY		
GOVERNMENT’S STRATEGIC GOAL: I.1 DEVELOPING A SOUND AND STABLE FINANCIAL SECTOR		
<i>Institutional Outcomes in the Government’s Action Plan that the CPS will support</i>	<i>Milestones and Outputs of the CPS program</i>	<i>Activities, Instruments and Partners</i>
<p>➤ Credit mechanisms improved and monitoring of credit risks improved through the establishment of new Credit Registry operated by the Central Bank</p>	<ul style="list-style-type: none"> ❖ Decision to locate the Credit Registry at the Central Bank adopted ❖ Roadmap to extend and modernize the credit registry adopted ❖ Terms of Reference for an international vendor to design a modern credit registry completed ❖ Contract with vendor signed ❖ Review of incentives and controls in place to foster adequate credit reporting completed ❖ New Credit Registry established and operational 	<p>Assistance to support the implementation of a Central Credit Registry - RTA Ongoing</p> <p>Operational set up of the new Credit Registry - New RTA</p> <p>Central Bank</p>

<p>➤ Institutional arrangements in the financial sector revised with a view to strengthen capacity of financial sector in response to crises</p>	<ul style="list-style-type: none"> ❖ Financial crisis simulation to identify vulnerabilities (in terms of legal infrastructure, information system, etc) completed and policy recommendations provided (TA) ❖ Full report with findings and recommendations delivered ❖ Recommendations to be implemented 	<p>Improvement of Financial Crisis preparedness</p> <p>TA (Multi-donor Trust Fund - FIRST Initiative - and Bank budget)</p> <p>New RTA</p> <p>Central Bank (lead), Treasury, COSOB (stock market oversight institution) and Insurance regulator</p>
<p>➤ Efficiency and intermediation capacity of State-owned Banks improved and Government's monitoring and oversight strengthened.</p>	<ul style="list-style-type: none"> ❖ Study on international best practices in monitoring and oversight of SoBs by shareholders government and road map of possible actions in Algeria ❖ Implementation of the roadmap 	<p>Assistance to improve efficiency of State-owned banks and their monitoring and oversight by Ministry of Finance (both TA and RTA)</p> <p>Ministry of Finance and Central Bank</p>
<p>➤ Banking supervision strengthened by carrying out the improvements identified</p>	<ul style="list-style-type: none"> ❖ Banking supervision improvements identified ❖ Technical assistance delivered (RTA) 	<p>Assistance to improve banking supervision</p> <p>RTA</p> <p>Central Bank</p>
<p>➤ Information security and business continuity of the central bank strengthened</p>	<ul style="list-style-type: none"> ❖ Information security and business continuity measures identified ❖ Measures implemented 	<p>Assistance on reinforcement of information security and operational continuity</p> <p>RTA</p> <p>Central Bank</p>

<p>➤ Reserves management strengthened</p>	<p>❖ Training on exchange reserves management delivered</p>	<p>Reserve Advisory Management Program (RAMP) - Ongoing</p> <p>Central Bank</p>
<p>GOVERNMENT’S STRATEGIC GOAL: I.2 STRENGTHENING AGRICULTURAL GROWTH AND RURAL DEVELOPMENT</p>		
<p><i>Institutional Outcomes in the Government’s Action Plan that the CPS will support</i></p>	<p><i>Milestones and Outputs of the CPS program</i></p>	<p><i>Activities, Instruments and Partners</i></p>
<p>➤ Improved project management and M&E capacity of the Ministry of Agriculture (MADR) and Rural Development to implement efficiently sector strategy (<i>Rural Renewal Program, PSRR</i>)</p>	<p>❖ M&E system for the PSRR developed</p> <p>❖ Training program needs for MADR central and decentralized staff designed, including:</p> <ul style="list-style-type: none"> - Capacity assessment for MADR staff completed - Delivery institutions identified <p>❖ Communication plan for PSRR prepared and implemented</p> <p>❖ Department of Forestry (DGF) supported in implementation and supervision of PSRR nationwide</p>	<p>Assistance to implement the Rural Renewal Support Program</p> <p>PSSR - RTA (Phase 1)</p> <p>Ministry of Agriculture and Rural Development (MADR)</p>
<p>➤ Three pilot projects implemented under the Integrated Agro Food Industry Centers (<i>Pôles Agroalimentaires Intégrés, PAI</i>)</p>	<p>❖ PAI pilot participants selection criteria, process and contract formats defined</p> <p>❖ Management tools finalized with objectives, targets and performance M&E framework for each pilot</p> <p>❖ M&E system of PAI program set-up</p>	<p>Assistance for the creation of Pilot Integrated Agro-Food Centers</p> <p>PAI - RTA (Phase 1)</p> <p>MADR</p>
<p>➤ Integrated management information system set-up in MADR</p>	<p>❖ Agricultural statistics system is redesigned and staff trained</p> <p>❖ Updated ICT strategy for MADR formulated and M&E system for the strategy designed and implementation started</p> <ul style="list-style-type: none"> - Diagnosis of existing information systems - Design of improved systems - Implementation of new systems and training of staff 	<p>Assistance to Improve Statistical Capacity</p> <p>Trust Fund for Statistical Capacity Building</p> <p>SASI - RTA (Phase 1)</p> <p>MADR</p>

GOVERNMENT'S STRATEGIC GOAL: I.3 IMPROVING THE BUSINESS ENVIRONMENT AND STRENGTHENING ECONOMIC DIVERSIFICATION

<i>Institutional Outcomes in the Government's Action Plan that the CPS will support</i>	<i>Milestones and Outputs of the CPS program</i>	<i>Activities, Instruments and Partners</i>
<ul style="list-style-type: none"> ➤ Institutional framework for business environment improved 	<ul style="list-style-type: none"> ❖ Strategy to improve the regulatory environment for businesses is defined, including in the area of financial administration, detailed action-plan for regulatory simplification measures adopted and launched. 	<p>Technical assistance on simplifying regulatory requirements in key areas of the business environment</p> <p>TA</p> <p>Ministry of Finance and sectoral ministries</p>
	<ul style="list-style-type: none"> ❖ Action-plan to put in place an Enterprise Common Identifier (ECI) between all relevant Government agencies adopted by an inter-ministerial committee. TA for the implementation of the ECI delivered to the Ministry of Planning, Prospective and Statistics and the relevant sectoral ministries. 	<p>Technical assistance on the implementation of a unique enterprise identifier</p> <p>TA</p> <p>Ministry of Planning, Prospective and Statistics (MPS) and sector ministries</p>

AREA OF INTERVENTION II – PROMOTING SUSTAINABLE DEVELOPMENT AND REDUCING SPATIAL DISPARITIES

GOVERNMENT’S STRATEGIC GOAL II.1: STRENGTHENING SUSTAINABLE DEVELOPMENT THROUGH ENVIRONMENT PROTECTION

<i>Institutional Outcomes in the Government’s Action Plan that the CPS will support</i>	<i>Milestones and Outputs of the CPS program</i>	<i>Activities, Instruments and Partners</i>
<ul style="list-style-type: none"> ➤ Plan to strengthen management and technical capacity of the National Agency for Solid Waste (<i>Agence Nationale de Déchets, AND</i>) under implementation 	<ul style="list-style-type: none"> ❖ Capacity building plan agreed with AND and implemented ❖ ECO-JEM system designed and implemented within AND 	Assistance on Solid Waste Management RTA (Closed December 31, 2010) MATE
<ul style="list-style-type: none"> ➤ Institutional capacity of the <i>Agence Nationale des Changements Climatiques (ANCC)</i> strengthened and Clean Development Mechanism portfolio strengthened 	<ul style="list-style-type: none"> ❖ Dump sites rehabilitation program designed and developed ❖ Operational manual for management and technical capacity of ANCC finalized ❖ 3 pilot projects Clean Development Mechanism identified 	Assistance on Unauthorized Dumpsites Solid Waste RTA (Closed December 31, 2010) MATE
<ul style="list-style-type: none"> ➤ Comprehensive supply and demand energy forecasting system in place 	<ul style="list-style-type: none"> ❖ Strategic forecasting improved, in view of diversifying future energy supplies, including low carbon sources. <ul style="list-style-type: none"> - New energy demand forecasting model in place and operational. 	Assistance on improving energy demand forecasting TA and RTA Ministry of Energy and Mining

GOVERNMENT'S STRATEGIC GOAL II.2: SPATIAL DEVELOPMENT AND ECOTOURISM		
<i>Institutional Outcomes in the Government's Action Plan that the CPS will support</i>	<i>Milestones and Outputs of the CPS program</i>	<i>Activities, Instruments and Partners</i>
<ul style="list-style-type: none"> ➤ Competitiveness and excellence poles established in the wilayas of Béjaïa, Sétif, Borj-Bou-Arredj and M'sila, in line with National Plan for Local Management (<i>Schéma d'Aménagement du Territoire</i>, SNAT) 	<ul style="list-style-type: none"> ❖ Assessment of technical and economic feasibility of the competitiveness and excellence poles completed ❖ Objectives and structure of the poles among local companies disseminated ❖ Documents for the establishment of the poles prepared ❖ Financial mechanisms of the poles defined 	<p>Support to the creation of Competitive Poles</p> <p>RTA (2011-12)</p> <p>MATE</p>
AREA OF INTERVENTION III – STRENGTHENING THE INSTITUTIONS OF ECONOMIC PLANNING, MONITORING, EVALUATION AND POLICY-MAKING		
GOVERNMENT'S STRATEGIC GOAL: STRENGTHENING THE PLANNING, EVALUATION AND POLICY-MAKING TOOLS OF THE GOVERNMENT		
<i>Institutional Outcomes in the Government's Action Plan that the CPS will support</i>	<i>Milestones and Outputs of the CPS program</i>	<i>Activities, Instruments and Partners</i>
<ul style="list-style-type: none"> ➤ Effectiveness of social assistance programs (MNS, ADS, ANGEM, MoF) evaluated 	<ul style="list-style-type: none"> ❖ Assessment of current M&E practices completed, trainings and capacity building in the M&E area delivered ❖ Core programs to be evaluated identified and training needs completed ❖ Technical assistance program to improve the M&E systems of selected social development programs completed (including a potential impact evaluation) 	<p>Support to improve the efficiency and the targeting in the delivery of social development programs</p> <p>TA and RTA</p> <p>Ministry of National Solidarity and Family (MNSF)</p> <p>Agency for Social Development (ADS)</p>

		National Agency for Microcredit Management (ANGEM)
	<ul style="list-style-type: none"> ❖ Stock-taking analysis of the efficiency in targeting of the existing subsidy system completed ❖ Options defined for approaches to improve targeting mechanisms 	<p>Assistance in the evaluation of the targeting and efficiency of subsidies</p> <p>TA and RTA</p> <p>Ministry of Finance</p>
<ul style="list-style-type: none"> ➤ Monitoring and evaluation function of the recently created Ministry of Prospective and Statistics (MPS) adequately staffed, equipped, under a clear mandate. 	<ul style="list-style-type: none"> ❖ Capacity building and training in the areas of M&E: <ul style="list-style-type: none"> - Trainings delivered and use of RSMS-X in effect at the Ministry of Planning and Statistics (MPS) - Trainings delivered at MPS on M&E and impact evaluation techniques - Framework of indicators to monitor and benchmark economic and social outcomes and reforms is in place ❖ Joint impact evaluation of a pilot program conducted with MPS (RTA) 	<p>Assistance in economic and social sectors monitoring</p> <p>TA and RTA</p> <p>Ministry of Planning and Statistics (MPS)</p>
<ul style="list-style-type: none"> ➤ 2010 National Household Survey completed and information available for policy making and social analysis 	<ul style="list-style-type: none"> ❖ Technical assistance to the National Statistical Agency (ONS) completed: <ul style="list-style-type: none"> - Technical assistance in the preparation of the national household survey delivered (support to sampling and questionnaire preparation) - Training to ONS staff delivered ❖ Joint analysis to evaluate national household survey data completed (RTA) 	<p>Statistical capacity building</p> <p>TA and RTA</p> <p>National Statistical Agency (ONS)</p>

Appendix 1b: Algeria Country Partnership Strategy FY11-FY14

Program Summary for Tier 2: Planned Activities¹⁷

	Government's Strategic Goals	Proposed Areas of Cooperation	Expected RTA Activities	Expected Bank-funded Activities
I	Develop a sound and stable financial sector	Financial sector development	<ul style="list-style-type: none"> Improving the governance of public banks (support to the oversight unit of the Ministry of finance, etc.). 	
	Strengthen growth and economic diversification	Business environment, ICT, export promotion and diversification strategy.	<ul style="list-style-type: none"> Support to the preparation and implementation of a long-term diversification strategy. ICT Broadband development and spectrum management. Improving the business regulatory environment. 	<ul style="list-style-type: none"> Policy notes in support to the preparation of the economic diversification strategy. Review of existing SME promotion policies and industrial strategy. ESW on Diagnostic of existing export promotion mechanisms
II	Strengthen spatial development and ecotourism	Spatial development and ecotourism	<ul style="list-style-type: none"> Assistance in the establishment of desert ecotourism centers Assistance to the establishment of competitiveness poles in new towns. 	
	Strengthen capacity to reduce vulnerability to natural disasters	Disaster Risk Management	<ul style="list-style-type: none"> Regional disaster risk management analytical work and policy dialogue is continued 	
III	Strengthen the planning, evaluation and Policy-making tools of Government	Planning, policy evaluation and statistical capacity strengthening.	<ul style="list-style-type: none"> Advisory services and capacity building to CNES in priority areas to be identified Improving public investment efficiency and management Budget Modernization and public expenditure efficiency improvement 	<ul style="list-style-type: none"> Support to the reform of subsidy targeting

¹⁷ Activities that remain to be confirmed and for which outcomes and indicators will be developed during CPS implementation

Appendix 2
COMPLETION REPORT
COVERING THE COUNTRY ASSISTANCE STRATEGY 2004-2006
AND THE INTERIM PERIOD 2006-2010
PEOPLE'S DEMOCRATIC REPUBLIC OF ALGERIA

I. Introduction

1. This Country Assistance Strategy Completion Report (CAS-CR) reviews the World Bank Group's program in Algeria over the last six years. It assesses the implementation of the program that was set out in the original CAS document (for the period FY04-06) as well as the years since the conclusion of the CAS period to today. In accordance with Bank's internal guidelines on CAS CRs, the analysis addresses Bank's performance during the complete period including implementation of the CAS and the following interim period. It also reviews the projects and AAA under implementation and other activities launched during the same period. Table 1 below lists the activities under consideration, in addition to IFC activities.

2. The CAS-CR is based on the reviews of: (i) portfolio implementation performance reports; (ii) the last two implementation status and results reports (ISRs) and Aide-Memoires of the projects active during period under review; (iii) implementation completion reports (ICRs) of projects completed during the CAS period; (iv) the Independent Evaluation Group (IEG) reviews of ICRs; available Quality Assurance Group (QAG) Reviews; and (v) the 2005 CAS Progress Report. This CAS-CR has been developed based on consultation with Government's counterparts; and the self-assessments by the Algeria Country Team. The lessons learned, including those outlined in the July 2005 CAS Progress Report, inform the new Country Partnership Strategy for FY10-13.

II. Political and Economic Context

A. Context at Design

3. **The CAS was prepared over a period of 18 months between January 2002 and June 2003, at a time when Algeria had regained stability and its economy was recovering after a decade of the 1990s made of political unrest and economic stagnation.** The reform momentum was strong in all areas of economic policy, and four consecutive years of rising oil prices offered increased fiscal space to implement public investment programs to catch-up with lagging infrastructure and social development investments that had declined drastically since the mid-eighties and throughout the 'lost decade' of the 1990s. GDP growth increased from 2.1 percent in 2001 to 4.1 percent in 2002, and foreign exchange reserves reached their highest level since independence, growing 27 percent between 2001 and 2002 to US\$23 billion. Still, the reform backlog was significant, in particular in the financial sector area where the State-owned banks needed yet another recapitalization to reduce their vulnerability to non-performing loans.

Table 1: Activities Implemented by the World Bank Group (FY04-FY10)

Pillar I	Pillar II	Pillar III	IFC*
Lending			Investments
	Rural Employment Project II (US\$95m- cancelled)		Cement and steel (4 investments)
			Leasing, banking, and private equity funds (9 investments)
			Fertilizer
			Infrastructure
AAA			Advisory Services
Economic and Social Monitoring	FSAP	Strategic Perspectives for Agriculture Rural Development	
PER	Legal Business Environment TA	Poverty Update (ESW)	
Macroeconomic Strategy Note	Investment Climate Update TA	Education Sector (ESW)	Corporate Governance
Budget Modernization ESW	Financial Sector Review (ESW)	Poverty Dynamics (TA)	SME Capacity Building
Project M&E Capacity Building to DRGFE (IDF)	Mortgage Finance (TA)	Policy Note on Labor Market	Business Environment
Modernization of Public Procurement (IDF)	Doing Business (TA)	Social Insurance (TA)	Credit Registry (RTA)- joint IFC/WB
Sonatrach RTA I and II		Water Sector (RTA)	
RAMP	Policy Note on Business Development	Pharmaceuticals Reimbursement Study	
Diversification Strategy Note	East West Expressway (TA)	Rural Development Strategy	
Assessment of PSRE ESW	Credit Registry (RTA)	Transport Sector Roadmap	
Global Payment System Reform TA		TA on Global Payment System Reform	
CNED RTA		AML/CFT TA	
		Environment Assessment	
		Poverty Assessment	
		HD Dialogue (TA)	
		Water Resource Management Strategy	
		Public Service Delivery	
		Solid Waste RTA (I and II)	

* See Annexes for details on the IFC program

4. **The Government strategy at the time of CAS preparation aimed at** (i) strengthening the basis for sustainable and rapid growth; (ii) improving the effectiveness of public service delivery; and (iii) improving living standards and strengthening social protection. The Government reform agenda was ambitious and included (i) reform of the judiciary; (ii) reform of the education and health systems; (iii) redefining the role of the State and modernizing its administration; (iv) reforming the business environment, the financial sector and State-owned enterprises; and (v) sectoral reforms in telecoms, energy, transport, and other infrastructure sectors in parallel to increased public investments.

5. **The World Bank Group CAS** aimed at supporting specific areas of reforms. It was organized around broad areas which the CAS Progress Report renamed Pillars of intervention. These were:

- ***Pillar 1: Strengthening the basis for fiscal sustainability and Government effectiveness***, aimed at achieving several goals, such as creating an asset liability management framework, including management of oil price volatility, and improving Government effectiveness through better public expenditure management and procurement reforms.
- ***Pillar 2: Improving the business environment and encouraging private sector participation***. The areas identified for action were: opening-up infrastructure sectors to private participation to increase competition and improve the delivery of basic services; furthering financial sector reform to modernize its infrastructure and increase access to investment and working capital for SMEs; and improving the business environment.
- ***Pillar 3: Improving public service delivery***, including in human development, housing and water, social protection, education, rural development; and natural resource management.

6. To deliver in these areas, the CAS envisaged an ambitious program. It constituted the first full strategy prepared for Algeria after 10 years (the previous CAS of 1996 had been designed as a transitional assistance strategy to support the stabilization program of the then newly elected Government). The Bank's presence in the 1990s had been limited due to the instability and its knowledge of the Algerian economy and the country's development challenges eroded as a consequence. The CAS program was designed in a flexible way whereby the main areas of interventions were defined but the program of activities was left relatively open beyond the first year. The CAS included a substantive AAA program and a very limited new lending program. However a large portfolio was already active at the time of its preparation (see Annex 1 for a comparison of planned vs. actual program).

7. The CAS design appears to have been too ambitious. It was not revised to adapt to the rapid changes ongoing in the country, in particular the increase in oil revenues and the policy changes that it induced. Also, several reforms expected by the Bank appeared to have been too ambitious and not taking enough into account the actual pace of reforms and the implementation capacity in different sectoral ministries.

B. Context during Implementation

8. **The CAS was implemented as hydrocarbon prices and production increases eased the financing constraints of the Government.** By the end of 2005, oil prices reached US\$55/barrel, against CAS assumptions of US\$23/barrel. Oil revenues totaling \$150 billion were invested in a series of public investment programs aiming at fueling growth, upgrading infrastructure, and generating employment.

Higher oil prices and the impact of market reforms and increased public investment led to a double than expected 6 percent growth between 2003 and 2005, and a drastic decline in unemployment from 25 percent to 15 percent between 2002 and 2005. With the major oil windfall – reaching amounts not anticipated at the time the CAS was prepared, the country external financial situation improved significantly and the need for external financing quickly vanished. Yet, the commitment to opening-up the economy remained strong, as signaled by the ratification of the Association Agreement with the European Union in 2005.

9. **With increased fiscal resources, the Government shifted its economic strategy towards stronger emphasis on public investments, while drastically reducing its external debt.** In 2004, while the CAS was being implemented, the Government started to increasingly focus on achieving growth and employment through public investment projects, infrastructure in particular, financed with revenues from hydrocarbon resources. In 2005, it decided to repay its outstanding public external debt, including with multilateral financial institutions like the World Bank, and adopt a strict non-foreign-borrowing policy. Such decision led to a major restructuring of the Bank’s ongoing projects, including on projects that had been planned at the time of CAS design. The impact of rising oil prices—which continued between 2006 and mid-2009—also affected the drive for reforms. While the necessary institutional and business-enabling reforms were high on the Government’s agenda during the first part of the decade, and progress was made in some areas, the reform momentum weakened with the rise of fiscal resources as priority was given to delivering on the public investment programs (especially in infrastructure like transport, energy and water) and the improvement of services to citizens (social housing, education, access to water and energy, and health).

10. **The July 2005 CAS Progress Report (CAS PR) was prepared after the decision of the Government to stop borrowing.** While a large portfolio was being implemented, the program was not revised at the time the CAS PR was prepared. Soon after the Government decided to repay its external public debt, fourteen Bank loans were cancelled partially or entirely, for a total of US\$326 million (Table 2), and only one new project (the Second Rural Employment Project, not included in the CAS) was approved, before being cancelled soon after its approval. Nevertheless, the Bank did not sufficiently recognize the new Government policy orientation and the program was not sufficiently adapted to the evolving policy environment. Nevertheless, the Government proceeded to implement several Bank projects with its own financing. The AAA program was also affected and the pace of implementation slowed even if the program grew in scope. At CAS PR stage, the Bank still did not adequately integrate the major shift occurred in the Government’s debt policy by changing its cooperation approach, and only recognized that “the development of the RTA will be essential to provide in specific areas Bank expertise of a certain scale”. As a result, lending remained a possible scenario in the CAS PR analysis.

Table 2: Commitments Cancelled FY04-FY09*

Project Name	FY Board	Original Loan Amount \$M	FY Closing	Total Cancelled FY04-FY09 (%)
Industrial Pollution Control	1996	78.0	2005	17%
Water Supply & Sewerage	1994	110.0	2004	40%
Low Income Housing	1998	150.0	2003	39%
Rural Employment	1997	89.0	2005	9%
Financial System Infrastructure Modernization	2002	16.5	2006	79%
Budget System Modernization	2001	23.7	2009	33%
Mortgage Finance TA	2002	5.5	2007	7%
Energy & Mining TA Loan	2001	18.0	2008	28%
Urban Natural Hazard Vulnerability	2003	88.5	2007	94%
TEERP (Temouchent Emergency Earthquake)	2000	83.5	2006	6%
Privatization Assistance (LIL)	2000	5.0	2004	45%
Telecommunication & Postal Sector	2000	9.0	2007	7%
Transport Technical Assistance	2002	8.7	2008	25%
Second Rural Employment (**)	2003	95.0	2007	92%
Total		780.3		42%

* Not including restructuring prior to FY04 non linked with new debt policy; **only project approved during the CAS.

11. **The interim period that followed the CAS PR lasted well over the one year envisaged in the document.** The initial relevance of the CAS ended-up being misaligned with the new focus of public policy in the country. Cooperation between Algeria and the Bank adjusted to the emerging circumstances and the Bank's contribution evolved from that of financing partner to being a technical advisor. The Bank program was reduced in scope and shifted to supporting the modernization of selected areas of public policy. The analytical program focused on accompanying the Government's massive investment program

and the modernization of budget procedures. The role of Algeria's other international partners also declined, with the exception of the European Commission that maintained a large grant program. Nevertheless, while the pace of reforms expected in the CAS slowed down after 2005, Algeria still made progress in areas that were not originally included at the time of its preparation, but where Bank support was nevertheless provided, as in the area of service delivery to citizens.

12. **Cooperation with the World Bank shifted to Reimbursable Technical Assistance (RTA) but was characterized by insufficient structure in the engagement.** The Bank continued to maintain a close dialogue in specific sectors funded either by the Bank or by the Government, based on an opportunistic approach which built on programs completed and ongoing. This was the case particularly in agriculture and rural development, health, education and budget modernization. In the absence of a structured dialogue around a cooperation framework, providing TA and RTAs based on ad-hoc interventions limited the scope of intervention of the Bank and its potential developmental impact. With regards to the implementation of RTA activities, the limited knowledge of the instrument which was being used for the first time in Algeria, led to several challenges: delays in agreeing on the scope of activities and procurement procedures, difficulties in identifying pilot projects due to limited clarity of sector priorities, lack of feedback on assessing progress and agreeing on next steps in the course of implementation, and some considerable delays in processing payments. The impact of the Bank's action was relatively modest as a result.

13. **The approach advocated in the CAS, based on the principles of flexibility and selectivity proved appropriate, especially after the suspension of borrowing. However, the lack of a strategic framework around the program limited its coherence and impact.** The Bank could respond to the demands for advice by providing TA financed on its own budget or through RTA, which allowed to maintain continuity in the dialogue in selected critical areas. Such approach, however, took time to develop, for the reasons explained above. Interactions and feedback on reports and on preliminary Bank's recommendations remained an issue as such feedback was not perceived as an integral element in the partnership. Despite such challenges, the program implemented, while modest, was relevant to the needs expressed by the Algerian counterparts. Also, the Bank was able to react to the changed circumstances, and the Government carried out much of the program agreed through its own budget. It should also be noted that, despite the decision to stop borrowing, the Authorities, and the sector ministries in particular, valued the contribution that the Bank could provide in implementing their program, and attempted to find new ways of accessing the Bank's knowledge.

14. **The 2007 QAG review of AAA program in Algeria, which covered RTAs, noted that the impact of Bank's actions was most notable in areas where the Bank had previously implemented lending operations.** As regards AAA and RTA in particular, the Review recognized the value of this instrument in the context of Algeria. The Bank's interim engagement (FY07-FY10) led to a strengthened and more cohesive dialogue, and to the demand for a strategic approach to the partnership.

15. **The dialogue between the Government and the Bank between 2007 and the end of 2008 lacked structure and was weakened by the departure of the last Country Manager from the Algiers office at the end of 2007,** and senior presence at the end of 2007. For the following year, implementation of RTAs continued and new requests were presented, although the approach remained ad-hoc and did not lead to substantive engagement by the Bank.

16. **The Government and the Bank actively sought opportunities to resume the partnership and engage in a more structured dialogue, which led to the decision to prepare a CPS.** In December 2008, the Minister of Finance officially expressed interest in engaging in a more substantive program, supported by a full Country Partnership Strategy. For the subsequent year, a comprehensive program articulated around the Government priorities was discussed, agreed and confirmed through financial

commitments in the 2009 budget law. At the same time, RTA contracts continued to be implemented and new ones prepared, in particular in the agriculture and environment sectors. Advice by Bank staff also continued to be provided through TA in several areas, such as telecom, finance, and private sector development.

III. Bank Group Contribution to Results

17. In the absence of a CAS Results Framework (the CAS was designed before the results approach was introduced), the CAS CR assesses the Bank's performance based on the contribution made to the delivery of the Government's outcomes. Such outcomes have been selected among the key areas that the Bank intended to support through the CAS.

Pillar I: Strengthening the basis for fiscal sustainability and Government effectiveness

18. **Program summary.** The program under the First Pillar was implemented for the most part during the interim period 2006-2010. Activities under the first pillar aimed at supporting fiscal sustainability, including assistance for public asset and liability management and for improving Government effectiveness in the use of public funds. Oil revenues totaling \$150 billion were invested, between 2001 and 2005, in a series of public investment programs aiming at fueling growth, upgrading infrastructure, and generating employment. A first growth stimulus package, the US\$7 billion *Programme de Soutien à la Relance Economique* (PSRE) was approved for 2001-2004, followed by a larger *Programme Complémentaire de Soutien à la Croissance Economique* (PCSCE) for 2005-09, initially with a US\$55 billion budget. Algeria improved its management of oil revenues and the Bank provided relevant assistance in the context of rapidly growing oil prices. The objectives of Bank's advice aiming to modernize budgetary practices were relevant given the rapid increase in public expenditures.

19. **Rating Summary.** The Bank's contribution to the Government's outcomes as formulated in the CAS can be rated as **Moderately Satisfactory** (see Table 3 for the summary of outcomes). A focused program contributed in particular to create an asset liability management framework, through improved oil revenue and reserves management. On the other hand, Bank's support for the modernization of public expenditure management came short of expected goals as only few of the initiatives have been implemented. The country remains committed to implementing the broad range of initiatives that have already been prepared and piloted and substantive progress is expected over the next two years. The impact of the technical assistance in the area of public procurement has been limited so far. Yet, two Reimbursable Technical Assistance operations helped improve procurement practices at Sonatrach, the oil and gas State company.

Table 3: Pillar I Summary of Outcomes

Areas of Focus*	Government's Outcomes**	Bank's Activities contributing to the Government's Outcomes	Bank's contribution to Government's Outcomes Rating
I. Creating an asset liability management framework including management of oil price volatility	I.1. More sustainable management of oil revenues I.2. Improved reserve management	Macro Medium Term Strategy	S
		Assessment of PSRE	
		RAMP	
		Economic and Social Monitoring	
		Diversification Strategy Note	
		Budget Modernization Support ESW	
II. Improving the Government effectiveness through better public expenditure management and procurement reform	II.1. Public expenditures de-linked from short-term oil prices	PER	MU
		BSMP Loan	
		Labor Market Policy Note	
		ICA (2003 and 2008 update)	
	II.2. Improved public procurement capacity	Export Diversification Policy Note	
		IDF - Project M&E Capacity Building for DGRFE	
		Economic Recovery Program Evaluation ESW	
		Modernization of Public Procurement System (IDF)	
		CNED RTA	
		SONATRACH I & II (RTA)	

* Areas of Focus are based on the CAS description of Government's objectives.

** Government's Outcomes are selected among the targeted areas of reforms in the CAS.

I. Creating an asset liability management framework including management of oil price volatility

20. **The Bank provided assistance to improve the management of oil resources.** The Bank focused on strengthening fiscal sustainability, hydrocarbon revenue management and Government effectiveness, with three successive pieces of ESW, in coordination with assistance from the International Monetary Fund. The Macroeconomic Strategy for the Medium Term, the Assessment of the *Programme de Soutien à la Relance Economique (PSRE)* and the Public Expenditure Review (PER) all addressed hydrocarbons management and debt sustainability. They estimated the impact of the oil windfall revenues on the first phase of the massive public investment program. In addition, a Technical Assistance mission on oil fiscal revenues was completed. The Central Bank has received assistance from

the Bank's Treasury Department since 2007 through the Reserves Advisory and Management Program (RAMP) in support of capacity management of official reserves.

II. Improving Government effectiveness through better public expenditure management and procurement reform.

21. **Public Expenditure Management.** The Budget System Modernization Project (BSMP) supported an ambitious initiative to overhaul the public expenditure system. Progress has been slower than expected, but a stock of reform initiatives have been designed, are ready for implementation and are expected to be completed by 2012. Algeria has a clear legal and administrative framework for PFM and a reasonably functioning PFM system which provides for a satisfactory degree of financial controls and external audit. In addition, Algeria has reasonable PFM staff capacity. However, the PFM system is based on a legislative framework which required updating to modern standards which the BSMP sought to address by focusing on (i) budget reform, including budget preparation (Medium Term Expenditure Framework, performance budgeting, improved resource allocation), budget presentation (program budgeting, GFS nomenclatures) and a revision of the budget execution cycle, including the expenditure circuit, the control and auditing functions, as well as Government accounting; (ii) computerization of the budget activities; and (iii) support to the computerization of the General Tax Directorate. The startup of this project was delayed by about two years and the 2006 Mid-Term Review sharpened its objectives and dropped some components (the implementation phase of the IT component) that the Government undertook and completed with its own resources.

22. Contrary to most other Bank projects which were cancelled at that time, at the suggestion of the Bank, the BSMP was restructured in 2006 and remained active until its closure in 2009. However, most of the milestones set under the Mid-Term Review had not been met. Yet, significant achievements, such as the unification of the capital and recurrent budget, were realized. The bulk of the final outcome of the project has been a stock of initiatives that the project contributed to design and that will transform the current expenditure system when implemented. This stock of initiatives include a new budget classification; a Comprehensive Finance Law (*Loi Organique des Finances*); strategic planning now in place in 15 ministries that will support the introduction of programmatic approach to budgeting; an expenditure management handbook that simplifies the expenditure circuit and an MTEF adopted for the 2010-2014 period. The team has rated achievement of the project development outcomes as **Moderately Unsatisfactory** as by the end of the project the expected results set during its restructuration had not been achieved.

23. An RTA supported the newly created *Caisse Nationale d'Equipement et de Développement* (CNED) to support its mandate to evaluate large projects in the public expenditure program. Moreover the Public Expenditure Review (FY08) provided a broad overview and analysis of public expenditure with emphasis on the Public Investment Program. The PER studied in detail the transport, education, health and water sectors, and provided numerous recommendations to improve the quality of public investment spending.

24. **Improved Monitoring and Evaluation capacity.** Additional support for improved effectiveness of the budgetary procedures and procurement came through an Institutional Development Fund grant (IDF) on Project Monitoring and Evaluation Capacity Building of the DGREFE (*Direction Générale des Relations Economiques et Financières Extérieures*), the Bank's main counterpart in the Ministry of Finance, aiming at strengthening the DGREFE to coordinate, assess, monitor and evaluate projects funded by bilateral and multilateral donors. This activity, which was completed within its planned implementation period, was not only instrumental to strengthening the implementation capacity of DGREFE, but it also allowed the Directorate to acquire an IT platform accessible by internet allowing to generate reliable and accurate accounting and financial information, allowing the team to analyze the

financing offers received and to base its portfolio management to a results-based approach. It also allowed the training of a network of trainers to ensure sustainability of the results-based management approach. Two other activities also focused on improving budgetary practices, in particular the Economic Recovery Program Evaluation ESW.

25. **Improved Public Procurement.** The IDF on Modernization of Public Procurement System for the Directorate of Public Procurement in Ministry of Finance was completed but the recommendations remain to be fully implemented to generate impact on the effectiveness of public procurement in the country. Two RTAs responded to the demand from the State-owned oil and gas company Sonatrach for support in improving parts of its procurement system. The first of these initiated in 2005 aimed at improving the quality of twenty standard technical documents; a second RTA was carried out between December 2006 and August 2008, to help the preparation of standard bidding documents. Sonatrach followed most, although not all, the recommendations provided by the Bank.

Pillar II - Improving the business environment and encouraging private sector participation

26. **Program summary.** This pillar focused on: (i) privatization and improving the business environment; (ii) banking reform; (iii) encouraging private sector participation in infrastructure services. Removing the barriers to private-sector led growth was highly relevant in Algeria where the private non-oil economy accounts for 45 percent of the GDP given the weight of the oil economy and the public sector. The initial program was affected by the cancellation of several loans (Financial System Infrastructure Modernization, the Privatization Assistance and the Telecommunication and Postal Sector Modernization, see Annex) and the shift of emphasis of the Government towards State-led development. Therefore, CAS implementation focused on a narrower set of objectives, which the program helped deliver with success (see Table 4 below).

27. **Rating Summary.** The Bank's contribution to the Government's outcomes as formulated in the CAS can be rated as **Moderately Unsatisfactory**. The CAS helped the country advance the deregulation of the telecommunications sector, with significant impact on service delivery. In addition, the Bank helped with the modernization of payment system of the banking sector and putting in place a modern institutional framework for mortgage financing. Yet, progress in other areas of this pillar were more modest.

Table 4: Pillar II Summary of Outcomes

Areas of Focus	Government's Outcomes	Bank's Activities contributing to Government's Outcomes	IFC's Activities contributing to the Government's Outcomes	IFC's Activities contributing to the Government's Outcomes	Bank's contribution to Government's Outcomes
I. Privatization and improving the business environment	I.1 Subsidies to loss-making SOBs included in 2005 budget	Investment Climate Update TA	Corporate Governance Advisory	Corporate Governance Advisory	MU
		Financial Sector Review (ESW)	SME capacity building Advisory	SME capacity building Advisory	
		Mortgage Finance (TA)	Business environment Advisory	Business environment Advisory	
		Doing Business (TA)	Corporate Governance Advisory	Corporate Governance Advisory	
		Policy Note on Business Development			
		Credit Registry (RTA)			
II. Banking reform, including privatization of banks, and financial market development	II.1 Modern banking payment system (RTGS) developed II.2 Institutional foundation of mortgage market in place	Mortgage Finance TA (2002-2007)	Leasing equity investment	Leasing equity investment	MS
		FSAP (2004 and 2007)	Banking equity investment	Banking equity investment	
		Payment Systems TA (2005)	Private equity funds investment	Private equity funds investment	
		BA supervisory capacity on AML/CFT TA			
III. Encouraging private sector participation in infrastructure services, including telecommunications	III.1. Improved telecom sector indicators through liberalization and competition	East West Expressway (TA)	Cement and steel (4 investments)	Cement and steel (4 investments)	S
		Telecommunications TA	Fertilizers company investment	Fertilizers company investment	
			Infrastructure investments	Infrastructure investments	

I. Privatization and improving the business environment

28. **A dynamic private sector contributed significantly to non-oil economic growth since the early 2000s.** The Government made progress toward reforming the governance of public enterprises during the CAS period, in particular by itemizing subsidies to loss-making public enterprises into the

annual budget, strengthening performance contracts for public banks, increasing systematic control, and increasing the central bank's supervisory capacity. More rigorous requirements for private banks were also introduced, including higher minimum capital requirements and constraints on lending firms owned by its shareholders. The Bank provided technical assistance to simplify the regulation of businesses; however, the assistance had limited impact and Algeria's international rankings of the quality of its business environment remains low (see, for example, the Doing Business Report or the World Economic Forum country rankings). Implementation of ambitious programs to reform the regulatory environment to encourage stronger private sector growth fell short of original expectations. The Bank nevertheless remained engaged in this area.

29. **In the business environment and diversification area, a series of studies were prepared and delivered to the Government with mixed results.** Bank's support consisted mainly of analytical studies and technical assistance to inform the design of regulatory reform. An *Investment Climate Assessment* delivered in 2004 helped to shed new light on constraints to private sector development, in particular in areas of access to industrial land and business entry regulation. This work, together with follow-up TA activities and policy notes provided a basis from which to initiate reforms in both areas. A *Legal and Business Environment AAA* (2004) was used by the Ministry of Justice to inform the work of the National Commission on Commercial Code reform. Technical assistance started in 2006 to support a Doing Business reform inter-ministerial committee. It included recommendations to improve Algeria's ranking in many areas measured by the Doing Business Report, in particular regarding business entry, credit information, labor regulations and property registration. It also led to a TA led by the IFC to improve the efficacy of the National Agency for Investment Development (ANDI) one-stop-shop, and to a 2008 Policy Note on the Algerian Labor Market which identified constraints to a more effective functioning of the formal labor market in Algeria. As a follow-up to the 2004 ICA, the Bank undertook in 2008 a follow-up enterprise ICA survey which identified the main challenges to stronger private sector development and competitiveness in the country. Even if its dissemination was limited to the Government, its analysis remains a strong analytical basis for a future dialogue between the Government and the Bank on economic diversification. In fact, in late 2007, upon the request of the Government, the Bank developed detailed terms of reference for the preparation of a long-term diversification strategy. These terms of reference have later been used as key input to the Planning and Prospective Commission work on preparing such a long-term strategy. Finally, in April 2009 the Bank delivered to the Government a complementary Policy Note on "Export Diversification in Algeria."

30. **A cooperation with the *Conseil National Economique et Social (CNES)***, while not initially planned in the CAS, was launched and detailed in a Memorandum of Understanding. It encompassed knowledge transfer and capacity building on governance, business environment, poverty evaluation and the knowledge economy. Activities also included at training to high-level officials from different ministries in the impact evaluation of public policies.

31. **The activities under this pillar did not lead to any significant reform and had limited impact, even if they informed the ongoing legal reforms (e.g. commercial code).** While the program responded to an initial explicit request to support an ambitious privatization and business environment reform agenda, the Bank did not sufficiently changed the focus of its work in this area as the drive for the expected reforms weakened starting in 2005.

II. Banking reform, including privatization of banks, and financial market development

32. **Algeria has made progress in the liberalization of its banking sector, even if the privatization process has been put on hold at the start of the global financial crisis.** Algeria's reforms in the banking sector opened space for private foreign banks that now hold around 10 percent of the assets

of the sector. Their networks and operations are steadily growing in size. At the same time, tightening of regulatory requirements and higher minimum capital requirements led to the closing of most private locally-owned banks. The implementation of performance contracts with public banks' CEOs and the introduction of an independent board member chairing the audit committee are steps that are likely to strengthen State owned banks corporate governance. However, the first privatization ever initiated (*Crédit Populaire d'Algérie-CPA*) did not take off and no further timetable has been released in light of the impact of the financial crisis. The expectation is that the public banks will continue to dominate the banking sector and, as a consequence, a priority should be their modernization as they lack modern risk management processes, adequate accounting and information systems and modern banking management practices.

33. **The Bank has made an important contribution to the modernization of the payment system and the diagnostics of the banking sector building on an excellent dialogue with the Central Bank and the Ministry of Finance.** The *Financial System Infrastructure Modernization project* (2001-2006), ongoing at the time the CAS was approved, helped enhance infrastructure for basic financial services, including a modern inter-bank payment system, with the support of the central bank, Banque d'Algérie (BA). Although around 70 percent of the original operation was cancelled, the Government implemented successfully the cancelled components of the Bank Project using its own resources. A modern banking payment system (RTGS) was implemented, including a supporting telecommunications infrastructure that allows faster and more secure transactions. The *Payment Systems TA* (2005) complemented this program. In addition, a joint World Bank-IMF *Financial Sector Assessment Program* (FSAP), carried out in 2004 and updated in 2007, provided a solid knowledge base of the financial sector's vulnerabilities and development challenges, which informs the dialogue of the Bank and the IMF with the authorities up to today. A TA program was implemented by the World Bank in cooperation with the French Government on anti-money laundering and counter-terrorism financing. This program, completed in February 2006, was aimed at assisting the Government to put in place an effective AML/CTF regime compliant with FATF international standards.

34. **The CAS also helped improve the mortgage market institutional framework which helped further the development of the Algerian mortgage market.** The *Mortgage Finance TA* (2002-2007) addressed the most important legal and administrative constraints affecting the mortgage finance market in the banking system. This small operation helped put in place the main elements of an enabling environment for a mortgage market. The project was rated as moderately satisfactory by the team and by IEG because the new institutional framework had not been fully adopted by the time the project was completed. Progress has nevertheless taken place since then. **The Bank has also been assisting with developing institutions that facilitate access to credit.** The Bank of Algeria requested an RTA to support the development of the credit risk registries. This RTA, done jointly with the IFC, is currently under progress and should lead to significantly improve credit information.

III. Encouraging private sector participation in infrastructure services

35. **Support for regulatory reform in the energy sector produced initial gains that did not sustain over the CAS period.** The *Energy and Mining Technical Assistance project* (EMTAL 2001-2005) helped develop legislation in electricity, hydrocarbon and mining. That legislation was approved but Government policy shifts in the infrastructure sectors limited the progress in this area. The Bank operation was cancelled. The ICR rating for development outcomes under this project was unsatisfactory, as was IEG's rating. In hindsight, the adequacy of using technical assistance to drive deep institutional change proved to be inadequate in this particular case. In the meantime, the Government has maintained the original institutional structures in electricity and hydrocarbons and has relied on public investment plans of considerable size.

36. **The cooperation in transport produced mixed results.** A *Transport Technical Assistance* (2001-2007), aiming to set up a policy and institutional framework encouraging competition and private participation in infrastructure was completed but rated as unsatisfactory. This small operation sought substantial transformation of the transport sector in urban transport, ports, airports and railways, including the BOT subway concession for the city of Algiers, and the regulation of the sector. In hindsight, it turned out to be overoptimistic to expect that such a small operation could induce such a broad transformation of the sector. Still, the program had some impact. In urban transport, the impact has been satisfactory with the contracting out of operations of the new Algiers metro and urban tram systems. The Bank has also delivered a policy note on the *Transport Road Map* in 2005 and made recommendations in the road sector at the joint request of the Ministry of Finance and Ministry of Public Works in May 2005. Lastly, the *East-West Expressway TA* (2006) was also a relative success as most of the report's recommendations were accepted by the Ministry of Public Works.

37. **Algeria made significant progress in telecommunications through opening the sector to competition and engaging the private sector.** An important driver of these changes was a regulatory reform of the sector that the Bank supported through the *Telecommunications and Postal Sector Project* (2000-2006.) The regulatory reform opened the sector to competition. The ICR for the operation notes substantive progress in all of the objectives set under the program. The team rated the results from the operation as satisfactory; IEG rated it moderately satisfactory as the objective to privatize the public telecom operator (*Algérie Télécom*) was not achieved, as the Government decided to change course in this area. Yet, substantive achievements were realized. The project helped increase access to efficient and affordable communication services and opening the sector to competition and private participation. Algeria's performance in the telecom sector is well placed in the region. Key factors of success behind the positive outcome in telecoms were: (i) the Government commitment to a comprehensive set of reforms in a crucial infrastructure sector; (ii) considerable progress on the legal and institutional framework, that allowed the establishment of a level playing field for private operators to invest; and (iii) rapid deployment of private capital, especially in the mobile sector, that quickly widened coverage, improved technology and increased competition. The Bank continued to assist the Government in these areas even after the loan closed through Bank-financed TA.

Cooperation with the IFC:

38. **Cooperation between IBRD and IFC teams were coordinated during the CAS implementation, particularly for the ICAs preparation and the Credit Registry RTA with the Central Bank.** IFC's program in Algeria has picked up in the last few years, and contributed to the private sector development pillar of the CAS. With the opening of the IFC Algiers Offices in 2005, the portfolio has increased from around US\$74 million in FY04 to US\$126 million by end-FY09. In FY10, the committed portfolio declined to \$82 million due to the closing of two projects. The current portfolio consists of equity investments in the financial sector, and a loan and equity investment in the cement sector. In FY09, IFC had a record year in Algeria investing US\$50 million in the ASEC Algeria cement plant and a US\$10 million guarantee to a leasing company (IFC was instrumental in helping to establish the first leasing company in Algeria). In FY08, IFC took an equity investment of US\$15 million in a greenfield commercial bank with a focus on housing finance and MSME banking. In addition IFC invested US\$20 million in two private equity funds that target SMEs in the Maghreb and that have been very active in Algeria. IFC also helped finance other projects that have since been repaid in the steel and cement sectors.

39. **IFC also executed a program of advisory services** in the following areas: (i) agricultural linkages; (ii) simplification of business creation; (iii) capacity building and training for business associations; (iv) capacity building for exporters; (v) SME toolkit installation for SME ministry; (vi)

direct technical assistance for Arab Leasing Corporation on management and for *Credit populaire d'Algérie* on risk management; (vii) training and information seminars on risk management, non-performing loans; and (viii) SME financing, with the Central Bank. IFC is also engaging in a joint World Bank–IFC project in establishing a credit registry at the Central Bank, and providing assistance on developing a corporate governance code with private sector associations and the SME ministry.

Pillar III - Support the Government's efforts to articulate and implement a strategy for better service delivery

40. **Program Summary.** This pillar had four focus areas: (i) developing human capital and strengthening social protection; (ii) water and sanitation; (iii) housing; and (iv) strengthening natural resources management. The program diverted substantially from the CAS and CAS PR plans. The lending program was reduced from three loans planned (in solid waste management, water resource management and urban housing) to one operation, the Second Rural Employment Project (US\$95 million), cancelled shortly after it was approved, but implemented by the Government with its own funds.

41. **Rating Summary.** Bank's contribution to outcomes for the Third Pillar is rated **Moderately Satisfactory**. Progress under this Pillar has been mixed and uneven across the several areas covered (see Table 5 below). The only sector where CAS expected outcomes were met is Water Resource Management, where a substantive RTA program contributed to institutional strengthening of the sector. In addition, the Bank contributed to strengthening institutions for disaster preparedness, mainly through the Ain Temouchent Emergency Earthquake Relief loan, already under implementation at the time the CAS was approved. Poverty and social analysis received a strong impetus thanks to Bank's analytical contribution. As an unexpected outcome under this pillar has been the preparation by the Bank, during the last year of program under review, of a higher education quality enhancement plan, well accepted by the Government and implemented with financing from the European Union.

Table 5: Pillar III Summary of Outcomes

Areas of Focus	Government's Outcomes	Bank's Activities contributing to the Government's Outcomes	Bank's contribution to Government's Outcomes
I. Developing human capital and strengthening social protection	I. Enhanced capacity for poverty and social analysis	Poverty update	MS
		Social insurance TA	
		Quality Assurance for Higher education TA	
II. Water and sanitation	II. Private operators managing water systems of three largest cities	Water Resources Management Strategy	S
		Water RTA	
III. Housing	III. Enhanced national capacity to respond to natural risks and reduce the vulnerability of urban zones	Mortgage Finance TA project	S
		Urban Natural Hazard Vulnerability Project	
		Ain-Temouchent Earthquake Relief project	
		Solid Waste Management RTA (I and II)	
IV. Strengthening natural resources management	II.1. Institutional design of environment framework improved	Strategic perspectives for Agriculture and Rural Development	MU
		Industrial Pollution Control Project	
	II.2 Improved focus of design and implementation of the Agricultural and Rural Strategy	Rural Employment Project	
		Second Rural Employment project	
		Environmental strategy TA (GEF and METAP)	

I. Developing human capital and strengthening social protection

42. Despite a decline in the unemployment rate from close to 30% in 2000 to around 10.2% in 2009, driven by economic growth and increased public investments, Algeria continues to face pressure in its labor markets as better quality and more stable jobs are still needed for new job market entrants as well as for the unemployed or the many that are employed in short term, low quality jobs and in the informal sector. Indeed, most employment creation over the past years took place in low value-added sectors like construction, services and the informal sector. Also, unemployment among educated youth and women

remains high. Furthermore, Algeria's social protection system is still facing challenges in the areas of pension, unemployment insurance and labor regulation. Quality of education remains to be improved to reduce the skills mismatch between the demand and the supply of skilled labor. Yet, impressive gains were achieved in this sector especially in terms of universal access at all levels of compulsory education, and in terms of participation of girls and enrollment in higher education.

43. **The Bank's program has helped Algeria develop tools for the analysis of poverty.** The *Poverty update* (2004) helped the authorities undertake a household survey that updated the information about poverty incidence and evolution of poverty in the country. It also helped the authorities build their in-house statistical capacity. Although the *Poverty Dynamics ESW* (2005) was cancelled at the Government's request, the authorities have recently requested support with the new household survey that will update the information on poverty incidence. There is ample room for cooperation to deepen the analysis on poverty and further build the local capacity.

44. **The Bank provided technical assistance on health and education, but it is difficult to ascertain its impact due to the limited number of activities.** The *TA on Social Insurance* (2006) helped strengthen institutional capacity of the Ministry of Health. The Bank also provided advisory services to the *Education Sector TA* (2004) that included a cost analysis of the planned reorganization of the secondary education system. In addition, the Bank supported enhancement of the higher education level by a TA for *Building Quality Assurance for Higher Education* which concluded in June 2008.

45. **The Bank supported with success the introduction of community-driven development practices that helped generate incomes and employment in rural areas.** The First and Second Rural Employment Projects in particular contributed to generating employment among the rural population, although the second loan was implemented mostly with Government funds after the suspension of borrowing. Both loans had overall satisfactory ratings (both ICRs and IEG, with a MS for implementation of the second loan by IEG).

II. Water and Sanitation

46. **Bank assistance to the water sector has had a significant impact.** A new water code, stressing the need for sustainable development and use of scarce water resources, and for greater involvement of the private sector, was adopted in June 2005. The strategy of the Authorities has been to accelerate completion of urgent investments with national budget, launch alternatives schemes for water production (desalination plants under BOT) and improve efficiency in water allocation and distribution (including management contract with private international operators for water distribution in the largest cities, starting with Algiers). The Water Resources Management Strategy report completed in June 2003, fleshed out a detailed strategy for this sector which accounts for one of the largest components of Algeria's public investment program. The Authorities requested in 2005 a Water sector RTA. The Water and Sanitation RTA was designed in support of the water agency *Algérienne des Eaux* (ADE) and the National Sanitation Office (ONA) to outsource management of public services of water service delivery and sanitation in the cities of Oran, Constantine, Annaba and El Tarf. With this RTA, the Bank assisted the Agency in elaborating the bidding documents for management of the water service delivery and sanitation services for international private sector operators. The activity brought tangible results despite some difficulties linked to the definitions of the objectives of some of its missions. Implementation delays, including in recovering the payment for the program delivered, and changes in the sectoral orientation of ADE and ONA, lead to the cancellation of a planned second phase of the assistance.

III. Housing

47. **Despite major increases in social housing production over the past years, access to housing and financing construction in Algeria remains critical, affecting mainly the middle class and the poor.** During the 1990s, this problem had been exacerbated by insecurity in some rural areas, leading to increased demand for urban housing. The Government launched a publicly-funded program of construction of a million new dwellings in response to housing shortages. In complement to this ambitious program, further reforms of social housing policies are needed to reduce market distortions.

48. **The Bank has conducted satisfactory project lending and TA in the housing area.** Limited activities were completed during the CAS, after a 2002 multi-stakeholder *Housing Seminar* and the closing of the *Low-income Housing Project* in June 2003. The dialogue later weakened in this area and did not lead to the expected *Housing Market Strategy study* (2004) proposed in the CAS. Moreover, the originally planned *Urban Housing Program* was never implemented due differences with the approach adopted by the Ministry of Housing in this sector. However, the satisfactory *Mortgage Finance TA* project (2002-2007) addressed the most important constraints affecting the functioning of the mortgage finance market, even if some of the key actions, particularly on the legislative side, took place so late that their effect could not be measured by the end of the project.

49. **The Bank helped Algeria build the institutional capacity to respond to natural emergencies.** In response to the catastrophic flooding that hit parts of Algiers in 2001, the *Urban Natural Hazard Vulnerability Project* (2002-2007) provided a comprehensive response to reduce the vulnerability of the most affected urban zones and improve the ability of Algerian institutions at the national level to cope with natural disasters. This was originally not envisaged in the CAS. The amount of the operation was then heavily reduced. Still, the team and IEG rated as moderately satisfactory the achievement of outcomes and Bank performance. The ICR highlighted an increased awareness in the country to be ready and prepared to respond timely and effectively to crisis. The authorities have also considered the *Ain-Temouchent Earthquake Emergency Relief project*, completed in 2005, as best practice including in urban design. The team and IEG rated satisfactory the achievements of development outcomes as most of the objectives of the project were met.

IV. Strengthening Natural Resources Management

50. **Despite progress over the recent years, the agricultural sector in Algeria continues to produce below its potential.** The country continues to depend on food imports for many products (such as cereals, milk, sugar and oils). During the past ten years, the sector has implemented a rural development strategy and a large agricultural and rural renewal program which improved the standards of living of the rural population. Despite these efforts, yields remain low by regional standards as a result of drought, limited use of inputs and fertilizers and limited diffusion of modern techniques. Dependency on imports is high by regional standards (in 2006 food imports reached 18 percentage of total imports) and Algeria is among the largest world importers of wheat.

51. **The Bank had an active lending and AAA program in agriculture.** In 2004, the Bank carried out a *Support to the Agricultural and Rural Strategy* and financed the *Rural Employment Project (REP, 1997-2005)* aimed at promoting employment and economic growth in poor rural areas. This project was in line with the country's rural development strategy and its results were very encouraging, hence the decision by the Government to pursue a Phase II of the project, the *Second Rural Employment Project (REP-2)*, which was included in the CAS. Following suspension of external borrowing, the Government decided nonetheless to implement with its own financing the REP-2 as designed with Bank support. Following the successes under these two projects, the Government expressed interest in Bank technical assistance for the modernization of its agricultural sector and the development of an agri-business

strategy. An agri-business study was delivered and follow-on studies were carried out with financial support from the Canadian International Development Agency. Three new RTAs have been designed in the course of FY09-FY10 to implement Agri-business integrated poles; support the Ministry of Agriculture and Rural Development's ambitious programs under its the rural development strategy; and in the areas of statistical capacity. The sector has also benefited from Bank's support in reforming rural credit.

52. **In the environment area, many issues that the country faces are the legacy of past economic policies.** Despite a significant natural resource base, and substantial investments in physical and human capital over the years, the country faces major environmental problems. The National Environmental Action Plan (NEAP), completed with Bank's assistance in 2002, is one of the main instruments for policy making in the field of environment and sustainable development. Government addressed land planning with a National Master Plan for Land Use Planning "*Le Schema National de l'Aménagement du Territoire 2025 (SNAT)*" following a participatory approach and, coordinated by the Ministry of Land Use Planning, Environment and Tourism, re-examined by the Government Council beginning in March 2007.

53. **Bank support included broad environmental management with a comprehensive technical assistance component under the *Industrial Pollution Control Project* which closed in 2005.** The projects helped establish a legal and regulatory framework for the environment sector, build up the capacity of the Ministry of Environment (MATE), and improve the management of the environmental and pollution abatement Fund. The Bank has also supported MATE with funding from the FEF and the METAP, until the Ministry requested formal support through four RTAs in the areas of eco-tourism, the environment and the creation of competitiveness growth poles. All are currently under preparation. Responding to a request by the MATE, two RTAs were designed and launched in December 2007 on (i) capacity building and institutional strengthening in the municipal solid waste sector, and (ii) capacity building in the area of Clean Development Mechanisms. Implementation of the two RTAs has been welcome by the Government, although implementation has been slow mainly due to the lack of an existing legal framework and changes in counterparts.

V. Measuring Bank's Performance during the CAS Period

54. **Based on the analysis above, this Completion Report rates Bank performance during the CAS and the period thereafter as *Moderately Satisfactory*.** The Bank's team faced the challenge of implementing an ambitious program that for the most part had been designed before 2003, at a time when the reform momentum was strong and the need for external finance still relevant. Following the decision to reduce external borrowing, no new project proposed under the CAS was approved and the projects already in place were heavily reduced or cancelled. The CAS Progress Report took note of the non-borrowing policy of the Government, however policy shifts (as in the areas of privatization or infrastructure sectors) happened after the preparation of the Progress Report. Faced with an evolving policy environment and project cancellations, the Bank maintained a very limited dialogue mainly through technical assistance financed by the Government and by the Bank. Without a presence on the ground, with limited resources and a scattered program which led to RTA in only two sectors, the Bank faced the difficult task of resuming dialogue and supporting the formulation of a more strategic approach in the partnership.

55. **The shift in the Government policy impacted substantially the implementation of an already over-ambitious program.** In hindsight, Algeria's development needs in terms of infrastructure and social services received greater attention and priority by the authorities, when compared to the institutional and regulatory reforms that were expected at the time the CAS was prepared. Additionally, the economic recovery and the major increase in fiscal revenues stemming from the rising hydrocarbon exports,

provided the Government with the fiscal space to finance from its own budget a large investment plan to upgrade the infrastructure in all sectors and expand access to basic services to the population. Social transfers were also increased. These policies, in the context of regained stability and the need to improve the standards of living and the most pressing needs of the population, clearly took precedent vis-à-vis market reforms.

56. **Despite these unexpected difficulties and the scale-down of the program, Bank support to Algeria's reform process has generally been timely and useful, and in a few instances pivotal.** In a number of cases (Water, Telecommunications, Transport, Solid Waste Management), the diagnosis and recommendations of the Bank's work were endorsed by the client, but no immediate follow-up involving the Bank Group was agreed upon. This was most often due to changes in the pace of reforms in these areas, or shifting priorities for the Government. In some instances (like in higher education) diagnostic work that was endorsed by the authorities, led to support by other international partners who could provide free assistance for implementation of reforms using grant funding. The most important of these was the EU MEDA, a 2001-04 program of €336 million, and a 2005-07 National Indicative Program (PIN) of €106 million.

A. Coordination with other Development Partners

57. **There was close coordination and consultation with the donor community during the elaboration of the CAS.** Meetings were organized regularly to keep partners informed of the discussion the Bank was leading with the Government and to exchange on program contents. During CAS implementation, the Bank worked with the IMF to prepare the FSAP. Cooperation with UNDP and an EU SME Program materialized through co-financing in 2004 and 2008 to deliver the first and second investment climate assessments (ICAs). The Bank partnered with the EC on the water resources sector through the organization in 2005 of a joint international seminar on the reforms and development of the sector, and through close coordination in other areas of reforms, such as in the telecom sector. Very limited coordination happened on programs implementation, as all partners were affected by the Government policy to reduce borrowing. Also, several pieces of analytical work and technical assistance (Telecommunications, Transport, and Higher Education) were used by the European Union or adopted by the Government. Some of their recommendations were implemented through Government funding or through grants of other international partners. The various pieces of work on the business environment (ICA, Doing Business TA, Judicial and Legal Review, etc.) have either been used by counterparts to design ongoing reforms (e.g. business entry, industrial land, labor code reform, and company law reform), or have led to larger technical assistance activities (TA to one-stop-shop, RTA on Credit Registry with the central bank, EU large TA program in the legal area). In addition, the dialogue with partners continued and it resumed formally during consultations on the new CPS.

B. Program

58. **Lending.** As of end of June 2009, the World Bank had approved 73 projects in Algeria for a total of US\$5,912 million. Only one project was approved during the CAS period under review, the Second Rural Employment loan, was approved in 2003 for US\$95 million, but was later cancelled in 2006 for an amount of US\$87 million. The last Bank project, the Budget System Modernization, closed in February 2009.

59. **Portfolio Quality.** IEG reviews of ICRs indicate that there is no disconnect and that quality was overall satisfactory, with seven out of nine ICRs rated Satisfactory (See Table 6 as well as annex 2). Portfolio quality was low throughout CAS implementation, partly due to implementation delays inherited from the ongoing portfolio. A substantial percentage of portfolio commitments, US\$47million, or 7 percent of commitments at the time, was cancelled well before the new debt policy, mainly due to

restructuring requirements. Portfolio quality deteriorated further in FY04 with 27.3 percent at risk projects partly due to insufficient capacity and lack of familiarity with Bank procurement procedures. Following a Country Portfolio Performance Review in FY04, steps were taken to improve quality at entry and portfolio performance, particularly through project-specific seminars to disseminate best practices on procurement and financial management. Of the five problem projects at the beginning of FY04, the Water Supply and Sewerage project and the Privatization TA project closed in FY04 after being in problem project status for 18.3 and 7.4 months respectively. Two projects were restructured in FY05 and upgraded. The Transport TA was upgraded in FY06 but then downgraded again in FY07 due to implementation delays. The percentage of projects at risk improved to 22.2 percent in FY05 and declined to zero percent in FY06. It then deteriorated to 33.3 percent in FY07 following the downgrading of the Transport TA project. The Budget Modernization Support Project was the only operation under implementation between 2007 and February 2009, and it remained in problem status throughout (based on the classification of portfolio quality used by the Bank). The ICR rated the project as Moderately Unsatisfactory.

Table 6: Portfolio Performance (FY04-FY10)

FY	# Proj	Net Commit (\$m)	Problem (#)	Problem (%)	At Risk (#)	At Risk (%)	Commit At Risk (\$m)	Commit At Risk (%)
2004	11	473.9	3	27%	3	27%	48.9	10%
2005	9	337	2	22%	2	22%	112.2	33%
2006	7	83.5	0	0	0	0	0	0
2007	3	45.1	2	67%	2	67%	26.7	59%
2008	1	18.4	1	100%	1	100%	18.4	100%
2009	1	18.4	1	100%	1	100%	18.4	100%

60. The IBRD Portfolio has decreased from 11 projects (net commitment of US\$515.3 million) in FY04 to 0 projects as of March 2009. The disbursement ratio declined from 11.3 percent in FY04 to 8.9 percent in FY05 and increased slightly to 9.7 percent in FY06. Disbursement lag has been very high throughout the period FY03-07, and was highest in FY06 at 81.4 percent. IEG evaluated a sample of 6 completed projects that exited in FY03-06. Only one third of the projects were rated Satisfactory in both outcomes and likelihood of sustainability.

C. Reimbursable Technical Assistance (RTA)

61. **Since 2002, the Bank and the Government have signed seven RTA contracts all completed by the time the CPS was finalized.** As for other AAA tasks, no individual evaluation of the four RTAs completed is available, although some had been included in the QAG review undertaken in mid 2006. **Modernization of the Credit Registry – Joint WB/IFC Project .** The objective of this RTA is to assist the Central Bank of Algeria to modernize and develop its credit bureau. The RTA has led to the selection of the most suitable vendor for the modernization and the development of the national Credit Registry. Co-implementing this RTA with the IFC helped enhance the effectiveness of the project provided a

coherent and consistent response. WB/IFC recommendations have been followed by the CBA, although in the end the approach adopted to implement the recommendations differed from the original advice: the WB/IFC advocated the implementation of a private credit registry instead of a public credit registry; BA's original request was for a Public Credit Registry. After Bank/IFC study and findings, a Private Credit Bureau was recommended as a better solution for Algeria since the market conditions existed; however, after discussions and in agreement with WB, it was decided to suggest a phased approach, starting with the establishment of a Public credit registry with full Credit Bureau functionality and moving to the design of the delegation of the PCR to the private sector. *Lessons Learned:* despite delays in implementation from this client-funded activity, an element of donor funding in the RTA helps build consensus and ownership. Future designs should better take into account possible project delays and the addition of activities that may be necessary to achieve success, and budget for such uncertainties.

62. **The Water and sanitation RTA aimed to** support the Ministry of Water Resources and the Water Agency (*Algérienne des Eaux*, ADE) in the outsourcing the management of water supply and sanitation services in the cities of Annaba, Constantine and Oran. The agencies have made use of Bank's advice, used the bid packages and the processes were extremely successful, with a high number of bids received and the services successfully outsourced. The outcome of the activity is tangible, despite complex implementation arrangements and delays in recovering the costs of the activities. *Lessons learned:* deliverables and timeline should be clearly spelled-out in the contractual arrangements with the client. Several changes of TTLs on the Bank's side may hinder implementation. This RTA was supported by the highest level of Government, but implementation of the recommendations required very controversial policy and institutional changes to be implemented at level of the administration. Mechanisms to build consensus among all decision makers and affected parties could be built in the design of the RTA.

63. **Procurement advisory assistance to SONATRACH.** The objective was to bring the procurement documents and practices of Sonatrach in line with international good practice, in two phases. The RTA prepared procurement documents to help Sonatrach in the drafting of its own guidelines and procedures through direct advisory of the region's procurement manager and joint workshops. The guidelines were adopted by Sonatrach and are used in the energy sector overall. Quality of documents and procedures were significantly improved even if not all recommendations were endorsed and adopted. Working with the main sector operator and influencing the whole Energy sector, Bank's leverage and impact went beyond the scope of the activity.

64. **Public Investment Project Evaluation - Caisse Nationale d'Équipement et de Développement (CNED)** The objective of this RTA was to reformulate the missions and actions of CNED improve the efficiency of public investments. Guidelines for the selection, implementation and evaluation of large public infrastructure investments were prepared and have informed the practice of CNED, Ministry of Finance and infrastructure ministries (Public Works, Transports, and Water). The activity was implemented successfully, despite a delay of over two years *Lessons learned:* complex bureaucratic arrangements to put in place the contract delayed implementation of the activity and caused a change in the design.

VI. Lessons Learned

65. ***Flexibility in adapting to Government's evolving priorities paid off.*** The Bank remained engaged after the suspension of borrowing and in spite the Government's increased attention to implementing the massive Public Investment Program, financed from oil revenues. While responding to the evolving demands, the Bank was able to maintain a dialogue only in some sectors, mainly where engagement had been longer and conducted through lending.

66. ***Instruments of cooperation evolved by mutual agreement as the parties sought to continue cooperation after the suspension of borrowing.*** The CAS Progress Report foresaw a tactical shift that maintained broadly the areas of engagement but emphasized delivery through RTA, Bank AAA and other similar instruments. Although the process of experimentation took time, the partners have come to an operational understanding of the RTA instrument and the circumstances under which it is likely to be the most effective: mainly, the provision of complementary AAA, a strong Bank team that maintains continued presence, a strong and capable counterpart, and a multiannual framework.

67. ***Continuity and commitment.*** Despite the difficulties the CAS program made significant contributions, in part because the Government continued the program envisaged under the CAS with its own resources.

68. ***Dialogue.*** Several AAA activities have contributed to promoting dialogue between the Bank and individual ministries/entities. However, they have had little impact on inter-ministerial dialogue in the absence of coordination on the Bank program, an issue which was significantly improved after 2008. Moreover, actual dialogue with the client has been relatively weak due to delays in providing feedbacks on draft report and recommendations. For certain tasks, dissemination beyond the immediate Government interlocutors has been difficult and for other tasks, broader dissemination within Government has been through seminars or similar events. For this reason, an unusually high number of Bank reports were not finalized, and only a few were published.

69. ***Relevance.*** Although most tasks had policy relevance, many of the key issues of critical importance for Algeria's future (e.g., decentralization, public administration reform) have remained outside the dialogue with the Bank, with the notable exception of the Budget Modernization Project. Moreover, because of the demand-driven and ad hoc way in which the AAA activities were developed and implemented, there were only limited linkages and synergies across the different tasks.

70. ***Policy Reforms.*** Various factors contributed to slowing policy reform and structural transformation. In areas where diagnosis and recommendations provided through Bank's work were endorsed by the client, the limiting factors were the lack of consensus among stakeholders affected by the reforms, problems of implementation capacity, a growing complacency that difficult reforms could be postponed given the oil windfall. Some of these factors led to limited follow-up actions and implementation of recommendations. In addition, limited consultations on reforms, which included only Governmental stakeholders, and the absence of dissemination of results of analytical work and project implementation, precluded systematic discussions that might have helped identify key areas of cooperation and to gain buy-in by diverse stakeholders.

71. ***Implementation.*** Contractual arrangements supporting the activities should involve detailed deliverables, including final outputs as well as intermediate delivery outputs, with clearly defined services and outputs (including missions) and a detailed calendar of implementation.

Recommendations stemming from the lessons learned:

72. ***Continued engagement should maintain realistic expectations:*** the review of the last CAS and of the implementation of recent programs shows that the Bank can positively contribute even within the confines of a program channeled through RTAs. Expectation of broad impact should however be tamed and replaced by a precise description of the outcomes of the engagement, as well as the complementary work of the authorities and the impact that both can deliver. In such environment, the effectiveness of Bank's assistance will depend on the high quality of its assistance and supporting teams and on ownership

by the client. This will be highly dependent on the ability of the counterparts to display sufficient absorptive capacity and engagement through strong ownership.

73. *Keep a flexible approach to the design and implementation of the WBG program:* Interestingly, some of the sectors that have proven to benefit from a sustained areas of dialogue between the Bank and the client country were not included in the original 2004 CAS, pointing to the need of designing the strategies with enough flexibility to accommodate the shifting of client demand as circumstances change.

74. *World Bank Group program impact will depend on the quality of the supporting teams:* to have an impact the Bank program approach should be the continuous engagement of high quality teams, as sporadic interventions have not produced results.

75. *Limited dissemination and consultations:* the opportunities for broad consultations and the wide dissemination were not sufficiently used in Algeria. Narrower, well tailored dissemination to the relevant audiences remains feasible and useful to help identify key areas of cooperation and to gain buy-in by diverse stakeholders. In addition, the Bank can still maintain a pro-active advocacy position by providing access to global knowledge and acting as catalyst for regional issues of relevance to Algeria.

Annex 1 - CAS Activities

	Original CAS program*	Program Implemented (FY04-FY10)	Activities implemented by the Bank not in the CAS
Pillar I	AAA		
	Economic and Social Monitoring	Economic and Social Monitoring	Macroeconomic Strategy (ESW)
	PER	PER	Budget Modernization (ESW)
	Public Service Reform		Project M&E Capacity Building to DRGFE (IDF)
	Support to Fiscal Sustainability		Public Procurement Modernization (IDF)
	Pensions and insurance reform		Sonatrach I RTA
	Development Policy Reform		Sonatrach II RTA
			RAMP
			Diversification Strategy (ESW)
			Assessment of PSRE
	CNED RTA		
	Global Payment System Reform TA		
Pillar II	Lending		
	ICT Development Support (US\$22.5m)		
	AAA		
	Legal Business Environment	Legal Business Environment TA	Investment Climate Assessment
			Policy Note on Business Development
			Doing Business (TA)
	CFAA/ROSC		Payment System TA
			Telecom TA
	FSAP and FSAP update	FSAP and FSAP update	Financial Sector Review (ESW)
			Mortgage Finance (TA)
		Credit Registry (RTA)	
		IT to the Central Bank (to be added?)	
		AML/CFT TA	
		East West Expressway (TA)	
Pillar III	Lending		
	Municipal Waste Management (US\$25m)		Rural Employment Project II (US\$95m)
	Water Sector Reform Loan (US\$120m)		
	Urban Housing (US\$100m)		
	AAA		
	Poverty, Gender assessment and follow-up	Poverty Assessment	Pharmaceuticals Reimbursement Study
	HD Dialogue and Follow-up activities	HD Dialogue	Strategic Perspectives for Agricultural and Rural Development
	Education Financing Strategy		Transport Sector Roadmap
	Health Sector Financing Strategy	Public Service Delivery	Water Sector (RTA)
	Rural Development Strategy		Solid Waste Management RTA (I and II)
Environment Assessment			
Support to Public Service Delivery	Environment Assessment (TA)		
Water Resource Management Strategy	Water Res. Management Strategy		
Housing Market Strategy			

* Not including program ongoing before the CAS.

Annex 2 - Portfolio Performance Ratings

Project	FY Board	Overall Rating		Bank Performance Rating		Comment
		ICR	IEG	ICR	IEG	
First Rural Employment	1997	S	S	S	HS	Substantial achievement of objectives in generating and stimulating sustainable rural employment including attention to erosion control.
Telecom and Postal Sector Reform Project	2000	S	MS	S	S	Substantive progress in all fronts of the objectives, including the introduction of regulation and competitions; only drawback (as per the original objective) was the inability to privatize the main public operator, but this did not detract from the substantive achievements.
Ain Temouchent Emergency Earthquake Recovery Project	2000	S	S	S	MS	Most of the objectives of the project were met with modification on the original design to accommodate changes in costs and other factors during implementation.
Energy and Mining TAL	2001	MU	U	MU	MU	Complex and ambitious operation sought the introduction of regulatory frameworks in mining, energy and oil and gas and the introduction of private enterprise in the delivery of services and greater opening to private enterprise in the oil and gas sector. Initial progress in drafting and approving regulations and legislation was reversed through a 2006 presidential decree. The hydro-carbon sector has not been liberated. Did it make sense to use technical assistance to drive deep institutional change?
Budget Modernization Project	2001	MU	NA	MU	NA	Government undertook actions recommended by the projects, including recurrent budget reform and drafting of legislation and regulations, including the <i>Loi Organique des Finances</i> .
Transport TAL	2002	U	U	MU	U	Small operation that sought substantial transformation of the transport sector in urban transport, ports, airports and railways, including the BOT subway concession for Algiers, and the regulation of the sector. Some progress was made with some concessions of

						infrastructure. Presumably the country still lags considerably in infrastructure.
Financial System Infrastructure Modernization Project	2002	S	S	S	S	Around 70 percent of the original operation was cancelled. The Government implemented successfully with its own resources the components of the Bank Project that were cancelled. Good achievement of objectives in all of the components of the project. A modern banking payment system (RTGS) was implemented, including a supporting information systems. Supporting telecommunications infrastructure allows a better and faster operation of the RTGS.
Mortgage Finance TAP	2002	MS	MS	S	S	Small operation that put in place the main elements of an enabling environment for a mortgage market. In addition, there is now in place a clearer vision of the market and a more sustainable structure for the institutions that benefited from the project.
Urban Natural Hazard Vulnerability	2003	MS	MS	MS	MS	Heavily reduced amount of the loan; many completed activities have shown usefulness of reducing hazard risks and raising awareness.
Second Rural Employment	2003	S	S	S	MS	Only 8 percent of the project was implemented; but, the actions implemented are expected to contribute to the objective of the project which was to generate employment. Despite limited implementation the program was on track to the longer-term objectives, the Government has continued to make the funds available for the activity initiated under the project to continue.

Appendix 3

Consultations Report

Context

1. As part of the preparation for a new framework of strategic cooperation (Country Partnership Strategy, CPS) between the World Bank and the Algerian Government, which will be based essentially on repayable technical assistance, targeted consultations were held throughout the strategy preparation process.
2. The consultations involved the following phases:
 - *Domestic consultations and technical sectoral meetings.* These meetings were held by the Algerian Government and together with the Bank with the various sectors that had expressed a wish to see the Bank support their development efforts. They were intended to lay the groundwork for dialogue on the strategic partnership framework and led to the formulation of a matrix of repayable technical assistance projects and analytical studies to be financed by the World Bank over the next three years. One specific meeting (June 2009), the purpose of which was to reconcile the various actions and ensure intersectoral coordination concerning a number of projects, was particularly helpful and facilitated identification of needs for coordination and for the pursuit of synergies.
 - *External consultations.* These consultations were held with the community of donors and lenders and development agents (November 2009 and February 2010) and enabled participants to share information on the issues at the core of the strategy and the sectoral activities that the Bank planned to carry out over the next three years. This exchange of information was intended to enable the community of donors and lenders to envisage improving the coordination of their individual efforts and working together so as to provide the Algerian Government with a coherent, coordinated response in areas of joint interest. Lastly, a day of consultation with Algeria's civil society was organized jointly with the Algerian Government on February 2, 2010. This report presents a summary of the discussions that took place during that phase.
3. The objectives of the consultations with civil society were to (i) enable staff of the World Bank Group to have discussions with various segments of society so as to gain a better grasp of the developmental challenges faced by Algeria; and (ii) present and explain the contents of the new CPS and describe the themes on which the Algerian Government and the Bank agreed to work together over the next three years.
4. The day of consultation on February 2, 2010 was organized jointly with the Government, which wished to participate fully in the preparations for the day's deliberations. After the formal opening by the Director-General of External Economic and Financial Relations of the Algerian Ministry of Finance and the Bank's Country Director for the Maghreb, a brief presentation was made on the new partnership framework, the key areas of cooperation, and means of providing support, such as technical assistance, analytical studies, and capacity building (training, etc.).
5. That introduction was followed by sessions based on the three pillars of collaboration to be developed in the new strategy, namely: pillar I: growth enhancement and economic diversification, pillar II: sustainable development, and pillar III: support for the framework for economic policy implementation, assessment, and outlook.
6. Each session began with a brief presentation of the World Bank's experience in the area and the themes to be covered. A sectoral representative of the Algerian administration also made a brief presentation

on the Government's achievements and priorities with respect to each pillar. The floor was then opened for discussions.

Pillar 1: Growth enhancement and economic diversification: discussions and principal recommendations

7. Overall, the discussions on this pillar were generally centered on the main obstacles or constraints to the implementation of a strategy of diversification and non-oil growth, which would pave the way for Algeria to become less vulnerable to oil price fluctuations. Despite efforts made by the Algerian Government in recent years to implement a strategy aimed at promoting the productive industrial sector, it would seem that the financial windfall and *the abundance of resources have tended to encourage the importation, rather than the production, of goods*. *Oil taxation*, on which the Government budget is heavily dependent, means that the bulk of the State's resources is channeled toward the development of the energy sector, to the detriment of other sectors, especially the productive private sector that could contribute to diversification of the Algerian economy. The issues of human resources, capacity building, the transfer of expertise and know-how, and the development of the banking sector and the ICTs were also raised as equally fundamental to the success of the diversification of the Algerian economy. Finally, it is important for forums of discussion and analysis, such as the general planning commissariat, to be given the means to undertake these medium- to long-term strategic discussions in a coherent and coordinated way.

Pillar 2: Sustainable development: discussions and principal recommendations

8. After a lengthy presentation of the main challenges and achievements as regards the environment and sustainable development, participants specifically stressed the need for a platform for prospective analysis, aimed at weighing the growth problems that Algeria will have to face in the future and at configuring, for the long term, the principal parameters that shape sustainable development, including the environment.

9. It is also important to note the value of impact studies on environmental management and of participation by civil society in the context of a participatory approach.

Pillar 3: Framework for public policy implementation, assessment, and outlook

10. Improving policy formulation and evaluation capacity, including statistical capacity and better information sharing, was also a theme that was repeatedly highlighted as a priority during these consultations to achieve a more efficient use of resources and improve the effectiveness of the public sector, in particular in delivering public investment programs.

Appendix 4

Medium Term Macroeconomic Framework

Growth and Prices

1. Over the next four years (2011-2014) the Algerian economy is expected to grow modestly in the context of stable prices, a comfortable balance of payments surplus and a manageable fiscal deficit. At the currently forecast prices for oil and gas, Algeria's real GDP should grow at around 3.6 percent per annum on average during 2011-2014.

2. Table 1 provides the key aspects of the growth projection for the medium term. Real GDP will grow by 2.4 percent in 2010 and then stay between 3.4 and 3.7 percent for the next three years. This is based on very high investment rates. The gross investment rate is expected to be 45 percent of GDP in 2010 and to stay around 44 percent over the next three years. High rates of investment are, in turn, based on the assumption that hydrocarbon prices will stay high and will provide a comfortable stream of revenues to support public spending. Oil prices are projected to rise from \$76.2 per barrel in 2010 to \$86 per barrel by 2014. As a result, the role of the hydrocarbon sector will remain very important with an average share of 36 percent of GDP over the next four years. The non-hydrocarbon sector will also play an important role. Non-hydrocarbon GDP is projected to grow at 5.3 percent in 2010 and at 5.3 percent thereafter till 2014. Inflation, as measured by the consumer price index, is expected to continue a steady decline from 5 to 3.7 percent per annum by 2014.

Figure 2- Economic growth and prices

	2007	2008	2009 Est.	2010 Proj.	2011 Proj.	2012 Proj.	2013 Proj.	2014 Proj.
Economic growth and prices								
Nominal GDP (AD billion)	9,306	10,994	10,136	11,733	13,205	14,414	15,614	16,747
o.w. non hydrocarbon GDP (in percent of GDP)	56.1	54.5	67.4	64.4	63.4	63.6	64.1	65.0
Nominal GDP (US\$ billion)	134.3	170.2	139.8	158.6	168.8	178.4	187.6	196.2
Real GDP (% change)	3	2.4	2.4	3.3	3.7	3.6	3.5	3.4
o.w. non hydrocarbon GDP (% change)	6.3	6.1	9.3	5.3	5.3	5.3	5.2	5.0
GDP per capita (US dollars)	3,904	4,940	3,996	4,575	4,798	4,987	5,179	5,388
Unemployment	12	11	10.2	..	..	..	..	..
Consumer Price Index (% change, period average)	3.7	4.9	5.7	4.3	5	4.3	4	3.7
National Accounts								
Gross national savings	57.2	58.6	50.3	53.0	53.7	54.0	53.7	53.5
Of which: private	37.2	32.9	38.1	40.3	41.0	39.0	37.1	36.8

External accounts

3. The current account balance, which had fallen to a surplus of only 0.3 percent of GDP in 2009 as oil prices declined, is expected to climb up to 8.5 percent of GDP in 2010 and rise further to between 9 and 10 percent of GDP in the next three years. This pattern is driven largely by the assumption that merchandise imports will decline much faster as a proportion of GDP than merchandise exports, partly because of controls that have recently been imposed on importing activities. Thus merchandise imports are expected to fall from around 23.9 percent of GDP in 2010 to 22.4 percent in 2014 while merchandise exports will decline by a

larger margin from 36.3 percent of GDP to 34.9 percent over the same period. Foreign investment is expected to decline modestly from 1.4 percent of GDP to 1.1 percent.

4. The trade forecasts suggest that gross reserves will continue rising, and are expected to reach almost US\$226 billion in 2014 (or 46 months of imports). Thus Algeria's external position will remain very strong over the medium term.

Figure 3 Balance of Payments and Reserves

	2007	2008	2009	2010	2011	2012	2013	2014
			Est.	Proj.	Proj.	Proj.	Proj.	Proj.
Balance of Payments								
Current account balance	22.8	20.2	0.3	8.5	9.3	9.6	9.7	9.8
Trade balance	25.5	23.9	5.6	12.4	13.5	13.7	13.3	12.5
Merchandise exports	45.1	46.2	32.3	36.3	37.0	36.7	35.9	34.9
<i>of which Hydrocarbon (in percent of total exports)</i>	<i>98.4</i>	<i>98.2</i>	<i>98.3</i>	<i>98.0</i>	<i>98.0</i>	<i>98.0</i>	<i>98.1</i>	<i>98.0</i>
Merchandise imports	19.7	22.3	26.8	23.9	23.5	23.0	22.7	22.4
Income and services (net)	-5.9	-8.9	-10.0	-8.8	-9.6	-9.8	-9.2	-7.9
Transfers (net)	2.2	2.8	2.6	2.5	2.5	2.5	2.5	2.5
Financial Account	-0.8	0.7	2.5	0.8	0.1	0.1	0.4	0.4
Foreign direct investment	1.0	1.4	1.8	1.5	1.0	1.0	1.1	1.1
Overall external balance	22.0	21.0	2.8	9.2	9.5	9.7	10.1	10.2
Financing								
Central Bank reserves (in US\$ billion, increase -)	-29.6	-35.7	-3.9	-14.6	-16	-17.3	-18.9	-20
External Public Debt								
Estimated Debt Stock (US\$ billion)	5.7	6.0	5.3	4.5	3.7	3.4	3.2	2.9
<i>in percent of GDP</i>	<i>4.2</i>	<i>3.5</i>	<i>3.8</i>	<i>2.8</i>	<i>2.2</i>	<i>1.9</i>	<i>1.7</i>	<i>1.5</i>
<i>in percent of exports</i>	<i>8.9</i>	<i>7.3</i>	<i>10.9</i>	<i>7.3</i>	<i>5.5</i>	<i>4.8</i>	<i>4.4</i>	<i>3.9</i>
Memorandum Items								
Algerian oil price (US\$ per barrel)	74.7	99.2	61.8	76.2	78.8	82.3	84.8	86.0
Gross Official Reserves (US\$ billion, e.o.p)	110.2	143.1	148.9	161.0	171.4	188.3	206.9	226.4
<i>Gross reserves in months of imports</i>	<i>26.9</i>	<i>35.0</i>	<i>35.6</i>	<i>36.7</i>	<i>37.9</i>	<i>40.1</i>	<i>42.7</i>	<i>45.9</i>
Non-oil primary fiscal balance (in percent of GDP)	-44.1	-53.1	-44.9	-45.3	-45.8	-41.6	-36.1	-33.1
Exchange rate, AD per US\$1 (period average)	69	65	73	..	..	..	..	..

Fiscal accounts

5. The fiscal balance, which swung into deficit in 2009, will stay in deficit throughout the next three years as an ambitious public investment plan is pursued. As a percentage of GDP, however, the fiscal deficit is expected to decline from 6.8 percent in 2010 and turn into a surplus of 2.6 percent in 2014 as the expenditure ratio declines faster than the revenue ratio. Public expenditures are expected to decline from 42.2 percent of GDP in 2010 to 34.4 percent in 2014 while revenues decline much less from 38.4 percent of GDP to 37.1 percent. In any case, fiscal deficits are not a source of concern over the medium term because Algeria has a very low stock of debt of only \$5.3 billion (3.8 percent of GDP) as of 2010, which can be easily financed from domestic or external sources.

Figure 4 Fiscal Accounts

	2007	2008	2009	2010	2011	2012	2013	2014
			Est.	Proj.	Proj.	Proj.	Proj.	Proj.
Fiscal and oil sector accounts								
Total revenue	39.6	47.2	36.3	38.4	38.4	37.8	37.5	37.1
of which: Hydrocarbon revenues	30.1	37.2	23.8	25.6	26.1	25.7	25.2	24.5
Expenditures	34.7	38.9	45.4	43.2	41.8	41.8	41.8	41.8
Operating expenditures	17.2	19.4	20.3	17.5	17.0	15.6	14.3	13.2
o.w. Personnel expenditure	6.8	7.5	8.7	11.3	11.4	9.5	8.3	8.2
Capital expenditures	15.5	17.9	19	16.6	16.0	16.1	15.0	14.1
Overall fiscal balance	4.4	7.7	-6.8	-3.9	-3.3	-1.1	1.7	2.6

6. Possible sources of risk to this macroeconomic scenario lie in the volatility of fuel and food prices. If oil and gas prices decline significantly, Algeria's fiscal and external balances will be affected adversely. This will also be the outcome if food prices rise significantly as they did in 2008 since Algeria is a significant importer of food that is provided to the public at considerable subsidy. But such price volatility is not expected to affect growth substantially because Algeria has accumulated significant reserves to undertake countercyclical spending for several years.

Employment and productivity concerns in the medium term

7. Comfortable levels of reserves and good prospects for sustained revenues from hydrocarbon resources have, however, delayed reforms that could have strengthened the economy in many ways. The Algerian economy continues to be dominated by State-owned enterprises. This has limited its employment generating capacity and resulted in structurally high levels of unemployment. At present, the unemployment rate is 10.2 percent. When hydrocarbon prices are high and Government spending is high, jobs are created but mostly in low productivity sectors (e.g., real estate, construction, Government services). Another way of looking at this relationship is to note that Algeria gets relatively little growth for the very high rates of investment that it incurs. In other words, its investment efficiency is low.

8. Breaking out of the existing pattern of low employment and low productivity growth will require a renewed emphasis on market oriented reforms. Earlier in the decade, the Government had adopted plans for reforming public enterprises and improving the environment for private businesses by simplifying taxes, enhancing access to finance, promoting competition, providing imported inputs at low tariffs, and making labor markets more flexible in terms of hiring and firing. These ambitions were not pursued with much vigor through the rest of the decade, however, as rising international prices for oil and gas provided an easy source of revenues to sustain public enterprises, employ people in public investment projects, and fund entitlement programs such as food and energy subsidies and pensions. As long as hydrocarbon prices stay high, the incentive to develop a more efficient economy or a more efficient social protection system will remain weak. This is a structural liability and Algerian policymakers should consider putting incentives and institutions in place that can mitigate this and prepare the economy for a time when Algeria may not have easy access to large hydrocarbon revenues and growth may have to come from other sources.

Appendix 5

Challenges to the Transformation of the Algerian Economy

A. Strengthening Growth through Diversification of the Economy

1. *Productivity of the non-oil economy is lower in Algeria than in other middle-income oil producing countries and that gap seems to be widening.* Private investment into the nonoil economy is quite low and is mostly domestic as the bulk of the FDI goes to the oil and gas sectors. FDI has grown in recent years but remains worryingly low at 1.5% of GDP in 2010. Sources of growth analysis by the IMF shows that the factor accumulation has been the main source of the GDP growth from 1981 to 2005 with negative total factor productivity residual (Source: IMF 2009).

2. *The evidence seems to suggest that the limited development of the private non-oil economy is due to a weak investment climate that does not encourage competition, exports and innovation.* Compared to other oil economies, Algeria does not seem to suffer from the Dutch disease. However, it suffers from excessive vulnerability of oil price variation and over the past decades, Algeria was affected by the largest volatility in its terms of trade among all countries in the world. More important than the disincentives created by the oil dominance, the main causes of insufficient private investment and competitiveness reside in the poor business environment that governs economic activity. A variety of constraints to business development make it difficult to take advantage of emerging opportunities. In particular, the constraints to open and operate a company, to access credit or land, and to trade internationally, are particularly severe. The result is that new opportunities in more sophisticated activities are quite limited and the productivity gap with the rest of the world continues to increase.

3. Algeria's ranking of 124 in the trading across borders indicator in the World Bank 2011 Doing Business is corroborated by a low ranking in logistics, where the country ranks especially low (130 of the logistic performance index). Efforts at improving infrastructure must be accompanied by institutional reforms that lower transaction costs for imports and exports. Unfortunately, the absence of export growth over the past years is often interpreted as a sign that trade liberalizations did not deliver any benefits. In the face of surging imports, the Government has recently put in place a series of trade restrictions that limit the progress of the past years in terms of openness.

The need to improve the investment climate

4. *Despite efforts to reform, Algeria's regulatory environment for businesses lags the region and middle income countries more generally.* According to the 2011 Doing Business, Algeria ranks 136 in the world, with no change in rank from 2010, however, still lower than most other countries in the MENA and down from 134 in 2009. Algeria ranks particularly low in registering a company, transferring property and paying taxes. A survey of a representative sample of manufacturing and services firms conducted in 2007 identified the following constraints to private sector development in Algeria : corruption and uncertainty in the implementation of regulations and in dealings with public administrations; unfair competition from the informal sector; access to finance; electricity; tax rates and access to property. Distortions in industrial land markets, where a small private market coexists with a dominant public market that allocates plots administratively, lead to artificial shortages. Close to 53 % of firms ranked 'access to land' as a major or severe constraint in 2007. This is one of the highest rates among developing countries where similar surveys have been conducted. The distortions in industrial land markets will only disappear if greater space is made for private sector participation in land development and industrial zone management.

Strengthened financial intermediation as a key element of any diversification strategy

5. *The Algerian financial system remains dominated by public banks and is small given the income of the country.* The banking industry accounts for more than 90 % of financial assets and is dominated by public banks, which own around 90 % of total banking assets. Liberalization of banking sector brought in 14 new banks, but with privatization plans put on hold, the Government decision to retain a dominant role for State banks increases the importance for sound governance structures and operational improvements of public sector banks as a way to improve efficiency in credit allocation. Up to now the efforts of the Government at reform and modernization have concentrated on improving the payment system and creating institutions that make it easier for small and medium enterprises to access credit. The legal framework for the mortgage market, jointly with acceleration in issuing regular property titles has also improved. In addition, the Government has taken some steps to improve governance by defining CEO's objectives in performance contracts and by appointing a skilled independent director in each Board.

6. *Credit remains insufficient despite rapid growth in recent years.* Credit to the economy has been growing at a rate faster than the economy but it is still only around 30 % of GDP in 2010, a low percentage. Lack of capital has constrained banks from lending due to stringent capital adequacy rules. Less than 10% of the bank credit goes to households, of which half finances mortgage loans. Credit to companies remains highly concentrated. To improve access to credit by the SME sector the authorities have commanded public banks to expand credit to the SME sector by 20 % per year. However, the lack of appropriate risk management tools and internal control weakens the effectiveness of this policy. The launching of the new credit registry expected in 2011-2012 will help banks identify creditworthy borrowers; further strengthening the legal and regulatory environment and the reduction of legal uncertainty for the private sector to operate, such as the prohibition of consumer loans in 2009, should improve incentives to lend to the SME sector.

7. *A major transformation of the banking and financial sectors is needed to launch a process of significant economic diversification.* Looking forward, the modernization of the financial sector to improve the quality of allocation decisions can be organized around three strategic priorities. The first priority is to continue focusing on improving the governance and capacity of the public banks. The second will be to use credit as an effective instrument to provide resources to small and medium companies, including technology start-ups, especially in the service sector. The third priority centers on setting the institutional basis for the sound development of the financial sector (banks, insurance companies).

Economic diversification requires sector-specific strategies

8. *The country has yet to take full advantage of its agriculture potential.* Although agriculture growth has been positive, driven by domestic demand, output has been erratic and highly dependent on the weather. The Ministry of Agriculture and Rural Development (MADR) has been implementing since 2002 a national agriculture and rural development strategy, the National Agriculture and Rural Development Plan (PNDAR). The strategy was updated in 2006 and, in 2008 the Government created a legal framework to support such strategy ("*Loin d'Orientation Agricole*"). Government's key objectives are to: (i) improve food security through agriculture production, (ii) increase productivity and competitiveness while protecting the use of land and water resources; and (iii) promote agriculture as an economically, socially and ecologically sustainable activity that promotes the development of the rural space and the rural populations. To achieve such goals, the Government intends to improve institutional and legal framework, rural infrastructure, food supply chains, and access to finance and credit, markets, information, training, and promote private sector development. As regards food security and agricultural production, products targeted are cereals, milk, potatoes, dry vegetable, meat and eggs, olive oil, dates, and seeds and seedlings.

9. *Progress in telecommunications has been substantial but complementary actions are required to keep the pace with innovation and implement an aggressive strategy of expanding ICT services.* Major reforms were implemented in the telecom sector between 2000 and 2005, with Bank's support, setting the grounds for the current ICT legal, regulatory, institutional and sector structure in Algeria. This helped sustain a telecom penetration and teledensity increased from 5.5% in 2000 to 90% in June 2009¹⁸. Algérie Télécom (AT), the incumbent operator, was restructured and corporatized, but a planned privatization transaction was delayed, and then called off in 2008 due to unfavorable local and global market conditions. At this stage, most privatization transactions have stopped in Algeria since 2007. AT, as a State-owned company, suffers from a public sector administrative culture in a highly competitive sector, but enjoys the benefits from public sector support. Government has recently promulgated a new ICT Strategy, e-Algérie 2013, which should facilitate a new wave of reforms in the telecom sector. The e-Algérie 2013 strategy is providing a new platform and coordinated approach for eGovernment services to improve transparency and governance. Administrations, enterprises and the population are expected to be the main beneficiaries of this activity. Generally the sector profitability is decreasing and serious bottlenecks are developing in the broadband network¹⁹. Effective competition in the broadband market will depend of the establishment of a level-playing field, and the postal and telecom regulatory authority (ARPT), will play a key role there. Quality of service is also an issue in the form of saturated networks and high call drop rates. ARPT will need to address this for the telecom and the Internet sectors, but it needs to acquire new tools and capacity in order to improve effectiveness of its regulation on that sector, and prepare the next reform step which will be full sector liberalization.

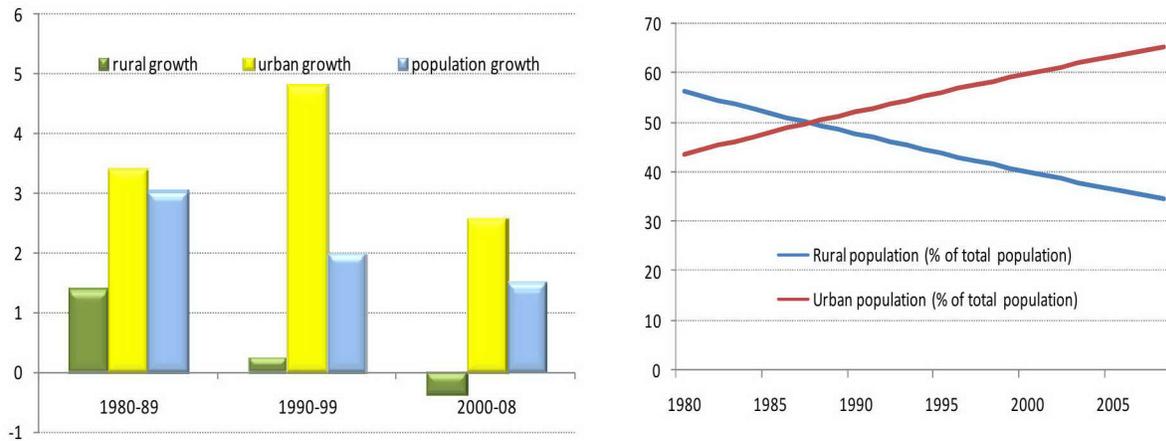
B. Promoting Sustainable Development and Reducing Spatial Disparities

10. *Environmental challenges and spatial disparities issues remain paramount.* Key environmental issues include: (i) water scarcity (water availability comes to a low 350 m³/inhabitant/year, far less than the shortage threshold of 500 m³/inhabitant/year); (ii) water quality caused by inadequate sanitation infrastructure; (iii) land degradation and deforestation caused by a number of factors (for example, soil erosion and salinization of soils has degraded approximately 12 million ha, and desertification threatens over 8 million ha of rangelands); and (iv) urban and industrial pollution. Environmental pressures as well as economic concentration have exacerbated spatial disparities.

¹⁸ Teledensity is the ration of fixed and mobile lines per 100 inhabitants.

¹⁹ The issuances of 3G (or 4G) licenses and spectrum have been on hold since 2005. This has slowed the growth in the broadband network, as there is no alternate provider. Only Algeria Telecom provides ADSL services and there is weak presence and competition from WiMAX operators.

Figure 13: Urban population growth increased putting pressures on the environment as well as exacerbating spatial disparities, 1980-2008 (in percent)



Source: WDI

11. Together with economic growth and job creation, reducing spatial disparities and ensuring a sustainable development path are important priorities of the Algerian Government. In line with the national planning framework (“Schéma National d’Aménagement du Territoire”, SNAT 2025), the agricultural development strategy as well as the industrial development strategy both plan the launch of integrated sectoral competitiveness centers, starting in particular in lagging regions (*Hauts Plateaux*). The tourism strategy also plan for the development of ecotourism in various Sahara regions. Despite a significant natural resource base, and substantial investments in physical and human capital over the years, the country’s environmental problems are severe (the annual cost of environmental degradation is in the order of 3.6% of GDP). In recent years, Algeria has developed the institutions and the legal framework to deal with such challenges, but implementation is slow and the feasibility of the strategy needs to be demonstrated, including through piloting some priority action.

12. The recommendations outlined in the SNAT 2025 indicate how the State intends to assure the objective of social equity, economic effectiveness, and environmental sustainability. The SNAT spells out actions necessary to address regional imbalances, including in urban and rural areas. It points out that Algeria should address issues resulting from previous unsustainable development choices and deal with regional imbalances and social disparities, constrained ecosystems, and depletion of natural resources due to population increase and distribution. Major economic activities are concentrated in coastal areas to the detriment of the higher plains (*Hauts Plateaux*) and the southern regions (*Région Sud*). These trends have resulted in an uneven urban development, leading to the rapid growth of urban centers.

13. Algeria is also very vulnerable to earthquakes, ranking 18 out of 153 countries in global exposure to earthquakes. Approximately US\$ 30 billion in assets (5% of GDP) and 1.3 million people are estimated to be exposed to earthquake losses and damages. The country has taken measures to respond to disasters. A National plan of disaster prevention and organization of intervention and rescue was formulated in 1985. This includes a program of action for fourteen identified natural and technological disasters. In addition, national level hazard and risk assessments and national and regional seismic hazard maps are available. A seismic survey telemetered network has also been installed nationally.

C. Strengthening the Institutions of Economic Planning, Monitoring, Evaluation and Policy-Making

14. *The State plays a prominent role in the economy of Algeria and its presence has been amplified as oil revenues increased.* With the increase in the price and production of oil and gas the share of the oil economy gradually increased over the last decade. Public enterprises contribute around 20 % of the non-oil GDP today and the private non-oil sector contributes around 45 % of the value of national production with a concentration on construction, agriculture and services. The powerful presence of the State translates into a bias towards State-led development where not only public investment dominates national interests, but it absorbs complementary resources such as domestic savings through the financial sector. In addition, the role of the State extends beyond the building of infrastructure and provision of services, into direct leadership through public enterprises which continue to dominate critical sectors of the economy.

15. *Algeria's State-led approach to development and transformation risks limiting the contribution of private agents to economic development.* An excessive role of the State introduces various risks to competitiveness. The State and its agencies may absorb the bulk of the financial and human resources making it difficult to meet other objectives diversify the economy. Entry in new sectors and innovation may be penalized to the detriment of increases of productivity and hence depress income. Past experience shows how limited incentives for reforms in Algeria as put on hold past initiatives intended to move the economy closer to a market economy. In fact, with some significant exceptions, such as in mining and telecommunications, the separation of the State as policy maker, regulator and owner of resources and public enterprises continue to be too limited.

16. *The strategic management of oil and gas resources will remain a formidable challenge for Algeria.* Algeria has made major progress in the management of revenues from oil and gas. It has delinked expenditure from income flows, created an oil fund and channeled substantial resources into infrastructure and improving human resources of the country. However, like in many other oil countries, the pressure to spend that emerges during upswing periods is difficult to contain and creates patterns of behavior and expenditure difficult to maintain during the downswings. Algeria faces this challenge now as the current fiscal deficit as a percent of non-oil GDP does not appear sustainable over the long-term, hence the importance of developing clear rules linking decision about public expenditure to the oil wealth, maintaining a transparent and prudent management of reserves; and selecting public investment strategies compatible with the absorptive capacity of the economy.

17. *Looking forward, improvements in the Government capacity to plan, monitor and evaluate its policies will be essential in all areas of policy-making.* This is particularly true in the area of budget execution and management, given the extraordinary size of the investment budget planned for the coming years. It is also true in other areas like economic policy making, social services and environment preservation. Algeria's ample budget resources will enable the State to continue to play an active role in all development areas. Enabling the State to better plan, monitor and evaluate its policies becomes paramount in this context. This is even more important that some of the recent policy choices—like in the foreign investment and trade areas—do not fully match current international policy trends, and will therefore require pragmatic monitoring and evaluation by the authorities to eventually fine tune the policy framework going forward.

18. *As part of the efforts to improve the efficiency of public expenditure, Algeria must continue its efforts to improve the quality of budgetary practice, including the streamlining and prioritizing the Public Investment Program.* Algeria has a clear legal and administrative framework for PFM and a reasonable functioning PFM system, which provides for a satisfactory degree of financial controls and external audit. The country has also made progress in merging capital and recurrent budgets providing a credible

macroeconomic framework for public finance and has reasonable PFM capacity. However, the system has major weaknesses in budget formulation and execution, which are mainly of an institutional nature rather than technical. Budget modernization, partially with the support of a World Bank Project, includes important reform blueprints which are ready for implementation (most notably the Organic Budget Law, budget classification, performance monitoring, and multi-year budgeting in place by 2012). When approved and implemented, these changes would lead to a major improvement in the capacity of the country to align budgetary allocations with national development priorities. Implementing planned reforms will require clearing mostly political road blocks related to the relationship between the Ministry of Finance and other ministries and agencies and between the central Government and regional authorities.

19. *In terms of planning, monitoring and evaluation, the recent creation of a Ministry of Prospective and Statistics signal the renewed focus of the authorities on these key functions of the State.* Strengthening these aspects of policy making started two years ago with the revamping of the General Commission for Planning and Prospective, as well as the National Office of Statistics. One of its goals is to encourage Government entities to think strategically and gradually improve the coherence among the various sector strategies, which today are widely dispersed across the administration. It also aims to strengthen the statistical capacity of all State entities and to develop expertise in policy planning, monitoring and evaluation. The recent transformation of the General Commission into a full blown Ministry assisted by a State Secretariat of Statistics is a sign of the growing importance of this function which is currently relatively weak.

Appendix 6

Algeria Country Financing Parameters

Item	Parameter	Explanation/Remarks
Cost Sharing. Limit on the proportion of individual project costs that the Bank may finance.	Up to 100%	The Government will continue to finance its own development programs. The Bank will complement AAA programs channeled through RTA with global and country-specific Trust Funds. Cost sharing arrangements for Trust Funds and, possibly, individual projects, would be determined based on context.
Recurrent Cost Financing. Any limits that would apply to the overall amount of recurrent expenditures that the Bank may finance.	No country level limit	Recurrent cost financing would be applied on a case-by-case basis grounded on due diligence reviews and approvals. The Bank will take into account sustainability issues at project and sector levels. Recurrent cost financing is broadly expected to stay at current modest levels.
Local Cost Financing. Are the requirements for Bank financing of local expenditures met, namely: (i) financing requirements for the country's development program would exceed the public sector's own resources (e.g., from taxation and other revenues) and expected domestic borrowing; and (ii) the financing of foreign expenditures alone would not enable the Bank to assist in the financing of individual projects.	Yes	The requirements for local cost financing are met. The Bank may finance local costs as needed to achieve individual TF/project objectives.
Taxes and Duties. Are there any taxes and duties that the Bank would not finance?	None	No taxes or duties have been identified as excessive, unreasonable or discriminatory. At the project level, the Bank would consider whether taxes and duties constitute an excessively high share of project costs.

Appendix 7

Reimbursable Technical Assistance Quality Monitoring Tool

Activity Name

Initiated on:

RTA contract signed on:

Estimated cost:

Objectives (as stated in the RTA):	1.	
	2.	
	3.	
Components:	A.	
	B.	
	C.	
Government's Institutional Outcomes the activity supports (as stated in the CPS Results Matrix)		
Milestones and Outputs planned in the CPS (as stated in the CPS Results Framework):		
Outputs delivered:	1.	Delivered on:
		Total cost:
	2.	Delivered on:
		Total cost:
Assessment of Output	1. Government:	
	Bank:	
	How the Output will be used:	
	2. Government:	
	Bank:	
	How the Output will be used:	

ALGERIA

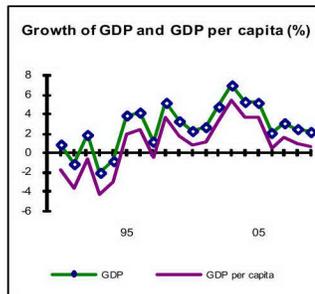
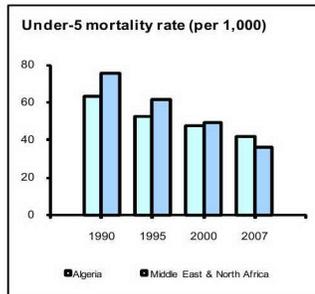
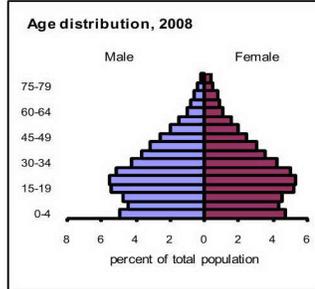
CAS Annex A1

Algeria At a Glance and Millennium Development Goals

Algeria at a glance

9/8/10

Key Development Indicators	Algeria	M. East & North Africa	Upper middle income	
(2009)				
Population, mid-year (millions)	34.9	325	949	
Surface area (thousand sq. km)	2,382	8,778	47,176	
Population growth (%)	15	18	0.9	
Urban population (% of total population)	65	57	75	
GNI (Atlas method, US\$ billions)	154.2	1,053	7,454	
GNI per capita (Atlas method, US\$)	4,420	3,237	7,852	
GNI per capita (PPP, international \$)	8,130	7,350	12,214	
GDP growth (%)	2.1	5.5	4.2	
GDP per capita growth (%)	0.6	3.7	3.3	
(most recent estimate, 2003–2009)				
Poverty headcount ratio at \$125 a day (PPP, %)	7 ^a	4	..	
Poverty headcount ratio at \$2.00 a day (PPP, %)	24 ^a	17	..	
Life expectancy at birth (years)	72	71	71	
Infant mortality (per 1000 live births)	36	29	19	
Child malnutrition (% of children under 5)	..	12	4	
Adult literacy, male (% of ages 15 and older)	81	82	95	
Adult literacy, female (% of ages 15 and older)	64	65	92	
Gross primary enrollment, male (% of age group)	111	107	112	
Gross primary enrollment, female (% of age group)	104	104	109	
Access to an improved water source (% of population)	85	88	94	
Access to improved sanitation facilities (% of population)	94	74	82	
Net Aid Flows				
	1980	1990	2000	2009 ^b
<i>(US\$ millions)</i>				
Net ODA and official aid	182	132	200	316
<i>Top 3 donors (in 2008):</i>				
France	75	122	57	122
European Commission	1	10	53	85
Spain	0	46	3	64
Aid (% of GNI)	0.4	0.2	0.4	0.2
Aid per capita (US\$)	10	5	7	9
Long-Term Economic Trends				
Consumer prices (annual % change)	8.7	16.4	0.3	4.3
GDP implicit deflator (annual % change)	25.9	30.3	24.6	-9.4
Exchange rate (annual average, local per US\$)	3.8	9.0	75.3	72.6
Terms of trade index (2000 = 100)	..	91	100	138
Population, mid-year (millions)	18.8	25.3	30.5	34.9
GDP (US\$ millions)	42,345	62,045	54,790	140,577
<i>(% of GDP)</i>				
Agriculture	8.5	11.4	8.9	11.7
Industry	57.7	48.2	58.6	54.5
Manufacturing	10.6	11.4	7.5	6.1
Services	33.8	40.5	32.5	33.7
Household final consumption expenditure	41.7	56.8	41.6	40.6
General gov't final consumption expenditure	15.2	16.1	13.6	13.9
Gross capital formation	39.1	28.6	25.0	41.2
Exports of goods and services	34.3	23.4	41.2	40.4
Imports of goods and services	30.3	24.9	21.4	36.1
Gross savings	..	..	41.3	46.1



1980–90 1990–2000 2000–09
(average annual growth %)

Note: Figures in italics are for years other than those specified. 2009 data are preliminary. Group data are through 2008. .. indicates data are not available. a. Country poverty estimate is for earlier period. b. Aid data are for 2008.

Development Economics, Development Data Group (DECDG).

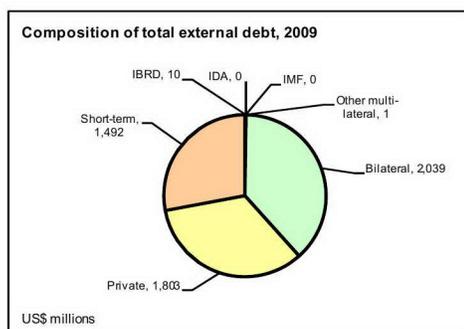
Balance of Payments and Trade	2000	2009
<i>(US\$ millions)</i>		
Total merchandise exports (fob)	21650	54,463
Total merchandise imports (cif)	9,634	40,670
Net trade in goods and services	10,860	6,179
Current account balance	8,940	14 14
as a % of GDP	16.3	10
Workers' remittances and compensation of employees (receipts)	790	2,202
Reserves, including gold	..	..

Central Government Finance

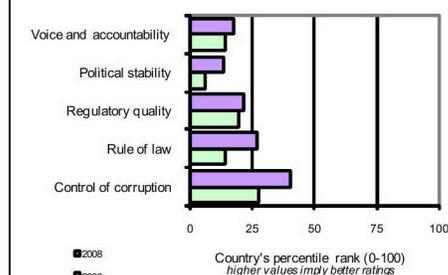
<i>(% of GDP)</i>	2000	2009
Current revenue (including grants)	38.3	32.6
Tax revenue	8.5	31.4
Current expenditure	20.8	20.0
Overall surplus/deficit	9.7	-9.9
Highest marginal tax rate (%)		
Individual	..	..
Corporate	..	..

External Debt and Resource Flows

<i>(US\$ millions)</i>	2000	2009
Total debt outstanding and disbursed	25,389	5,345
Total debt service	4,468	1,027
Debt relief (HIPC, MDRI)	-	-
Total debt (% of GDP)	46.3	3.8
Total debt service (% of exports)	19.5	0.9
Foreign direct investment (net inflows)	438	2,310
Portfolio equity (net inflows)	..	..



Private Sector Development	2000	2009
Time required to start a business (days)	-	24
Cost to start a business (% of GNI per capita)	-	12.1
Time required to register property (days)	-	47
Ranked as a major constraint to business (% of managers surveyed who agreed)	2000	2008
Access to/cost of financing	62.5	..
Anticompetitive or informal practices	60.1	..
Stock market capitalization (% of GDP)	..	..
Bank capital to asset ratio (%)	..	..

Governance indicators, 2000 and 2008

Source: Kaufmann-Kraay-Mastruzzi, World Bank

Technology and Infrastructure	2000	2008
Paved roads (% of total)	68.9	70.2
Fixed line and mobile phone subscribers (per 100 people)	6	102
High technology exports (% of manufactured exports)	4.1	0.7

Environment

Agricultural land (% of land area)	17	17
Forest area (% of land area)	0.9	10
Terrestrial protected areas (% of surface area)	..	5.0
Freshwater resources per capita (cu. meters)	358	327
Freshwater withdrawal (billion cubic meters)	6.1	..
CO2 emissions per capita (mt)	3.8	4.0
GDP per unit of energy use (2005 PPP \$ per kg of oil equivalent)	6.9	6.7
Energy use per capita (kg of oil equivalent)	886	1089

World Bank Group portfolio	2000	2009
<i>(US\$ millions)</i>		
IBRD		
Total debt outstanding and disbursed	1,425	10
Disbursements	58	0
Principal repayments	172	1
Interest payments	128	1
IDA		
Total debt outstanding and disbursed	-	-
Disbursements	-	-
Total debt service	-	-
IFC (fiscal year)		
Total disbursed and outstanding portfolio	5	30
of which IFC own account	5	30
Disbursements for IFC own account	0	0
Portfolio sales, prepayments and repayments for IFC own account	1	6
MIGA		
Gross exposure	5	4
New guarantees	0	4

Note: Figures in italics are for years other than those specified. 2008 data are preliminary.
 .. indicates data are not available. - indicates observation is not applicable.

9/8/10

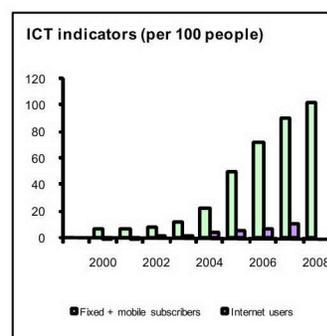
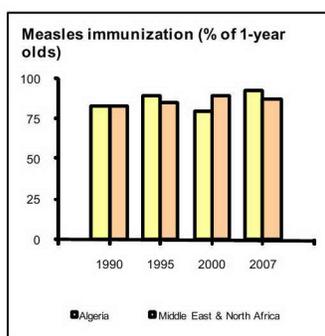
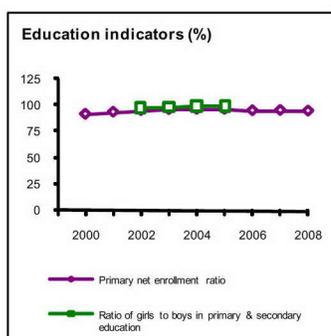
Development Economics, Development Data Group (DECDG).

Millennium Development Goals

Algeria

With selected targets to achieve between 1990 and 2015
(estimate closest to date shown, +/- 2 years)

	Algeria			
	1990	1995	2000	2008
Goal 1: halve the rates for extreme poverty and malnutrition				
Poverty headcount ratio at \$ 125 a day (PPP, % of population)	6.6	6.8	..	..
Poverty headcount ratio at national poverty line (% of population)	12.2	22.6	..	..
Share of income or consumption to the poorest quintile (%)	6.5	6.9	..	..
Prevalence of malnutrition (% of children under 5)	..	113	5.4	..
Goal 2: ensure that children are able to complete primary schooling				
Primary school enrollment (net, %)	89	..	92	95
Primary completion rate (% of relevant age group)	81	81	83	114
Secondary school enrollment (gross, %)	62	60	75	83
Youth literacy rate (% of people ages 15-24)	..	..	90	92
Goal 3: eliminate gender disparity in education and empower women				
Ratio of girls to boys in primary and secondary education (%)	83	..	98	99
Women employed in the nonagricultural sector (% of nonagricultural employment)	..	..	13	15
Proportion of seats held by women in national parliament (%)	2	7	3	8
Goal 4: reduce under-5 mortality by two-thirds				
Under-5 mortality rate (per 1000)	64	52	48	41
Infant mortality rate (per 1000 live births)	52	44	41	36
Measles immunization (proportion of one-year olds immunized, %)	83	89	80	88
Goal 5: reduce maternal mortality by three-fourths				
Maternal mortality ratio (modeled estimate, per 100,000 live births)	..	..	..	180
Births attended by skilled health staff (% of total)	77	..	92	95
Contraceptive prevalence (% of women ages 15-49)	47	52	64	61
Goal 6: halt and begin to reverse the spread of HIV/AIDS and other major diseases				
Prevalence of HIV (% of population ages 15-49)	..	..	0.1	0.1
Incidence of tuberculosis (per 100,000 people)	38	42	48	58
Tuberculosis case detection rate (% all forms)	122	113	127	103
Goal 7: halve the proportion of people without sustainable access to basic needs				
Access to an improved water source (% of population)	94	93	89	85
Access to improved sanitation facilities (% of population)	88	90	92	94
Forest area (% of total land area)	0.8	0.8	0.9	1.0
Terrestrial protected areas (% of surface area)	..	..	..	5.0
CO2 emissions (metric tons per capita)	3.1	3.3	3.8	4.0
GDP per unit of energy use (constant 2005 PPP \$ per kg of oil equivalent)	7.1	6.6	6.9	6.7
Goal 8: develop a global partnership for development				
Telephone mainlines (per 100 people)	3.2	4.2	5.8	9.6
Mobile phone subscribers (per 100 people)	0.0	0.0	0.3	92.7
Internet users (per 100 people)	0.0	0.0	0.5	119
Personal computers (per 100 people)	0.1	0.3	0.7	1.1



Note: Figures in italics are for years other than those specified. .. indicates data are not available.

9/8/10

Development Economics, Development Data Group (DECDG).

ALGERIA
CAS Annex B2
Selected Indicators* of Bank Portfolio Performance and Management
5/11/2011

Indicator	2008	2009	2010	2011
Portfolio Assessment				
Number of Projects Under Implementation ^a	1	0	0	0
Average Implementation Period (years) ^b	7.4	0.0	0.0	0.0
Percent of Problem Projects by Number ^{a, c}	100.0	0.0	0.0	0.0
Percent of Problem Projects by Amount ^{a, c}	100.0	0.0	0.0	0.0
Percent of Projects at Risk by Number ^{a, d}	100.0	0.0	0.0	0.0
Percent of Projects at Risk by Amount ^{a, d}	100.0	0.0	0.0	0.0
Disbursement Ratio (%) ^e	24.6	3.7	0.0	0.0
Portfolio Management				
CPPR during the year (yes/no)	No	No	No	No
Supervision Resources (total US\$'000)	253	114	26	0
Average Supervision (US\$'000/project)	84	114	26	0

Memorandum Item	Since FY 80	Last Five FYs
Proj Eval by OED by Number	67	7
Proj Eval by OED by Amt (US\$ millions)	4,178.3	52.7
% of OED Projects Rated U or HU by Number	49.2	42.9
% of OED Projects Rated U or HU by Amt	50.4	49.3

- a. As shown in the Annual Report on Portfolio Performance (except for current FY).
- b. Average age of projects in the Bank's country portfolio.
- c. Percent of projects rated U or HU on development objectives (DO) and/or implementation progress (IP).
- d. As defined under the Portfolio Improvement Program.
- e. Ratio of disbursements during the year to the undisbursed balance of the Bank's portfolio at the beginning of the year: Investment projects only.
- * All indicators are for projects active in the Portfolio, with the exception of Disbursement Ratio, which includes all active projects as well as projects which exited during the fiscal year.

ALGERIA
CAS Annex B3 - IBRD/IDA Program Summary
As Of Date 2/17/2010

Proposed IBRD/IDA Base-Case Lending Program ^a

<i>No Applicable Data Found.</i>	<i>Strategic Rewards b (H/ML)</i>	<i>Implementation b Risks (H/ML)</i>
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NOT APPLICABLE

ALGERIA
CAS Annex B3-IFC Investment Operations Program
Date as of Jan/7/2011

Commitments	2007	2008	2009	2010	2011
Gross	11.3	15.4	59.7	1.5	14.1
Net	11.3	15.4	59.7	1.5	14.1
Net Comm by Sector %					
Financial Markets	100%	100%	16%	100%	100%
Manufacturing, Agribusiness & Services	0%	0%	84%	0%	0%
Total	100%	100%	100%	100%	100%
Net Comm by Investment Instrument %					
Guarantee	73%	0%	16%	0%	100%
Loan	0%	0%	44%	0%	0%
Quasi-Equity (Equity Type)	0%	0%	0%	0%	0%
Straight Equity (incl. Fund)	27%	100%	40%	100%	0%
Total	100%	100%	100%	100%	100%

ALGERIA

CAS Annex B3 - MIGA Outstanding Exposure
(Gross Exposure, \$million)

	As of end of fiscal ye	FY2004	FY2005	FY2006	FY2007	FY2008	FY2009
Guaranteed Investments into Algeria		50	0	0	0	4.1	3.7
Guaranteed Investments Financed by Alge		0	0	0	0	0	0

Algeria

CAS Annex B8 - Statement of IFC's Committed and Outstanding Portfolio

Amounts in US Dollar Millions
Accounting Date as of : 07/31/2010

Commitment Fiscal Year	Institution Short Name	LN Cmtd - IFC	ET Cmtd - IFC	QL + QE Cmtd - IFC	GT Cmtd - IFC	RM Cmtd - IFC	ALL Cmtd - IFC	ALL Cmtd - Part	LN Out - IFC	ET Out - IFC	QL + QE Out - IFC	GT Out - IFC	RM Out - IFC	ALL Out - IFC	ALL Out - Part
1998	ABCA	0	1.40	0	0	0	1.40	0	0	1.40	0	0	0	1.40	0.00
2002	ALC	0	0.57	0	0	0	0.57	0	0	0.57	0	0	0	0.57	0.00
2009	ASEC Algeria	26.00	24.00	0	0	0	50.00	0	0	0	0	0	0	0	0.00
2008	BMIC Algerie	0	13.53	0	0	0	13.53	0	0	0	0	0	0	0	0.00
2007/ 2009/ 2010	Maghreb Leasing	0	4.97	0	23.19	0	28.15	0	0	4.96	0	3.45	0	8.42	0.00
Total Portfolio		26.00	44.47	0	11.23	0	81.70	0	0	6.93	0	5.55	0	12.48	0.00

ALGERIA
CAS Annex B8

Operations Portfolio (IBRD/IDA and Grants)

As Of Date 1/11/2011

Closed Projects **73**

IBRD/IDA *

Total Disbursed (Active)	
of which has been repaid	0.00
Total Disbursed (Closed)	170.98
of which has been repaid	1,444.96
Total Disbursed (Active + Closed)	170.98
of which has been repaid	1,444.96
No Applicable Data Found.	0.00
0.00	0.00
0.00	0.00

Active Projects

**Difference
Between
Expected and
Actual
Disbursements^{a/}**

Last PSR

Supervision Rating

Original Amount in US\$ Millions

Disbursements^{a/}

Project ID	Project Name	<u>Development Objectives</u>	<u>Implementation Progress</u>	Fiscal Year	IBRD	IDA	GRANT	Cancel.	Undisb.	Orig.	Frm Rev'd
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NONE

ALGERIA

- ⊙ PROVINCE CAPITALS
- ⊕ NATIONAL CAPITAL
- RIVERS
- MAIN ROADS
- RAILROADS
- PROVINCE BOUNDARIES
- INTERNATIONAL BOUNDARIES

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