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Washington, D.C.

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McNamara Papers

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Contacts with member countries: Algeria - Correspondence 01

Folder 1

**DECLASSIFIED**  
WBG Archives

ALGERIA

ALGERIA

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↑  
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12. 7/31/73 Smail Mahroug, Minister of Finance  
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13. 9/27/73  
(Nairobi) Ismail Mahroug, Minister of Finance  
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14. 12/6/73 Belaid Abdesslam, Minister of Industry and Energy  
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Mr. Lakhdari, President of SN Repal and Director General of  
SONATRACH  
Messrs. Redouane and Maada, Advisers in the Ministry of  
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15. 12/9/73 Belaid Abdesslam, Minister of Industry and Energy (at Mr. Khelif's)  
Cherif Guellal, Washington Representative of SONATRACH  
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Belaid Abdesselam, Minister of Industry  
Ahmed Medeghiri, Minister of the Interior  
Abdelkader Bousselham, Minister, Algerian Interests Section  
Mr. Aoufi, Secretary General, Ministry of Finance  
President Houari Boumedienne  
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Mr. Lunes, Director of Economic Cooperation, Ministry of  
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21. 8/30/75 Ismail Mahroug, Minister of Finance  
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Minister of Finance  
Abdelkader Maadini, Counselor of Embassy and Chargé d'Affaires  
ad interim  
1/6-10/76 Ismail Mahroug, Minister of Finance  
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22. 10/7/76 Abdelmalek Teman, Minister of Finance  
(Manila) Rachid Hassam, Director General, Ministry of Finance  
Mahmoud Ourabah, Secretary General, Secretariat of State for Planning
- 12/15/76 Abdellatif Rahal, Ambassador to the UN  
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23. 6/30/77 Ambassador Abdelazia Maoui
24. 9/30/77 Mohamed Seddik Ben Yahia, Minister of Finance  
Seghir Mostefai, Governor, Central Bank of Algeria  
Rachid Hassam, Director General, Ministry of Finance  
Ambassador Abdelazia Maoui
- 25 1/29/80 Ambassador Rehda Malek



*Mr. McNamara - to see please.*  
*10/10/28*

## OFFICE MEMORANDUM

TO: Memorandum for Record DATE: October 17, 1968

FROM: R.H. Springuel *RHS*

SUBJECT: Algeria - Visit of Annual Meeting Delegation to Mr. McNamara

1. On September 27 at 6 p.m., Mr. McNamara received the visit of the Algerian Delegation composed of:

Governor for the Bank  
Cherif BELKACEM  
Minister of State in Charge of  
Finance and Planning

Governor for the Fund  
Seghir MOSTEFAI  
Governor  
Banque Centrale d'Algérie

Alternate  
Kemal ABDALLAH-KHODJA  
Director General of Planning

Alternate  
Yahia KHELIF  
Director of the Treasury and  
Credit.

Messrs. Knapp, Lejeune and Springuel were present.

2. The discussion concentrated on the question of compensation for nationalized properties. Mr. McNamara indicated first that he understood that compensation for nationalized properties had loomed large in the relationship between Algeria and the Bank in the past, and he wondered where the issue stood at the moment. At various times subsequently, Mr. McNamara and Mr. Knapp asked for specific information, but the delegation did not seem equipped to give specific answers.

3. The Minister stated the position in very general terms: Nationalization in Algeria was the result of 130 years of colonization; it was necessary for the fundamental reorganization of the economy and settlement of such a difficult problem could not be expected quickly. The so-called "Contentieux Public" (disputes with France on the claims and counter-claims between Governments) had been settled, and the principle of indemnification has been accepted, but, in some cases, it had been found that the nationalized enterprise represented net liabilities rather than assets.

4. Mr. Khelif made a more detailed and somewhat confused description, to the effect that a large part of the issues had already been settled. The settlement between the French and the Algerian Governments related to about NFF 5 billions, and thus had settled the compensation issue in Algeria's official relationship with France. Commercial banks had been nationalized on agreed terms.



Memorandum for Record

October 17, 1968

There was no problem for land taken over, since the Evian Agreement specified that France would finance the land reform. Moreover, as a gesture of good will, Algeria had paid about NFF 10 million for certain special cases. Since then, there was tacit agreement between the French and Algerian Governments not to raise this issue or the one relating to housing and other buildings abandoned by French settlers. Industry remained the only area of conflict and one of three positions usually had arisen: (i) the claimant had disagreed with the proposed method of evaluation, thus delaying the settlement; (ii) the claimant was not really interested in getting compensation from the Algerian Government, hoping to obtain greater compensation from the French Government; (iii) against certain claims, Algeria could make counter-claims, such as about NFF 250 million against French insurance companies, and various other related claims (but usually not against the nationalized company concerned itself).

5. Noting that the problem of nationalization had been encountered by the Bank in many newly independent countries, Mr. Knapp stressed that the Bank was not seeking that every issue be settled at once, but that a procedure be established for the settlement of the claims, and that some progress be made towards a solution. Mr. Knapp requested that the Bank be kept informed of the situation, and indicated that we would be prepared to send a mission to explore the details. Our main desire was to remove this shadow from our relationship with Algeria.

6. The Minister said he was prepared to consider a mission for this purpose. Since Mr. McNamara first raised the question of compensation, he would like to know whether it was only a shadow, as mentioned by Mr. Knapp, or whether it was a pre-condition to Bank lending. Mr. McNamara answered that we did not know. If we were to find out that there was no mechanism for the settlement of nationalized property, we would be faced with a serious problem, but we knew so little about the question that we could not give a specific answer to the Minister. We were anxious to establish a working relationship with Algeria, and this was why it would be useful to explore the question thoroughly at a working level. Mr. McNamara concluded that he would be happy if Mr. Lejeune could report to him, before the end of the annual meeting, that we had obtained the information needed.

1/ In a subsequent meeting, Mr. Abdallah-Khodja indicated that, after reflexion, the Minister would have serious reservations about such a mission, with its implication of the Bank's active intervention in such a delicate matter.

RHSpringuel:lo

cc: Messrs. McNamara  
Knapp

Lejeune  
Benjenk  
Masoni/Maubouché

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INTERNATIONAL FINANCE CORPORATION

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# OFFICE MEMORANDUM

TO: Memorandum for the Record

Copenhagen  
DATE: September 25, 1970

FROM: M. P. Benjenk  
*DH for*

SUBJECT: ALGERIA - Visit of the Minister of Finance to Mr. McNamara

Mr. Ismail Mahroug, Minister of Finance of Algeria, called on Mr. McNamara on Saturday, September 19. The meeting was attended by Mr. Driss Cjazairi, of the Algerian Delegation, and, for the latter part of the meeting, by Mr. Benjenk.

The Minister and Mr. McNamara discussed the issues which had prevented the Bank and Algeria from having closer relations in the past few years and the ways that could be found to make it possible for the Bank to play an active role in Algeria by financing projects of importance to the Algerian economy. The Minister recalled that the main question which had separated the Bank and Algeria had been that related to the nationalization of French and other properties by the Algerian Government and the fact that in a number of cases compensation had not been paid. The Bank had asked for information on the different cases that were involved and it had not been possible to provide this information to the Bank for a number of reasons, including the fact that it was a very difficult task to gather the information concerned in view of the great number of enterprises involved and the fact that Algeria did not have enough qualified staff to perform this work adequately. The Minister said that there was considerable justification in the actions of Algeria, and that when the information was available, this would answer any doubts which the Bank might have on the justice of the Algerian action. The Minister added that he was distressed to hear that France had approached the Bank on this matter and this made it seem that France was playing a "double game" vis-a-vis Algeria, since the French Government was involved with Algiers in various forms of cooperation, including a large aid program. The Minister's wish in coming to the Bank's meeting in Copenhagen was to recall the fact that Algeria had been a member of the Bank since 1963 and wished to be treated as such, both with regards to the rights and duties of such a status. In this spirit, he informed Mr. McNamara that his Government was prepared to furnish the Bank complete information on all of the outstanding nationalization cases for which compensation had not been paid. The information would show that Algeria had settled a great number of very important nationalization matters with former owners, where such owners had been cooperative in supplying the required information on their properties and had shown understanding of Algeria's own difficulties. There were other firms, however, which had not been cooperative and merely insisted on preserving their former colonial privileges. In any case, the Bank would have all the information placed at its disposal.

The Minister went on to say that he hoped that his willingness to share information with the Bank would now leave the latter free to proceed with lending operations as quickly as possible. He hoped this would not mean that the Bank had to proceed with long economic studies since the Bank had already thoroughly studied Algeria's economy a few years ago. The Government had a number of very urgent projects for which it desired Bank financing, and he listed them as follows:

President has seen

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- (a) Irrigation.
- (b) Gas liquefaction scheme with El Paso.
- (c) The Trans-Saharan highway, and
- (d) A joint Algerian/Moroccan scheme for developing the iron ore resources in Southwest Algeria.

The Minister continued by saying that he hoped that the previous differences between the Bank and Algeria were a thing of the past, and that he would try to work as closely with the Bank as possible.

Mr. McNamara replied to the Minister that he will be very interested in receiving the information which the Minister offered on the compensation issue, although for the Bank the basic question was not why Algeria had nationalized a number of foreign properties, but whether progress was being made on the settlement of these outstanding issues. The Bank did not question Algeria's right, as a sovereign nation, to nationalize foreign property. He noted the Minister's comment about France's role in this matter. He did not think that France was playing what the Minister called a "double game" on this compensation matter, although it was not for him to speak on behalf of France. In any case, no single country could tell the Bank what its policy should be about any other member country. It was his responsibility as President of the Bank to make proposals to the Board, and he was the servant of all the member countries. The matter at issue was concerned with established policies of the Bank and that is why it was so important for the Bank to be able to look at all the information before arriving at a judgement. Mr. McNamara wanted to stress the fact that the Bank's policies did not require the complete settlement of all outstanding claims, before lending could proceed. It only required evidence that "reasonable efforts" were being made by both sides in a dispute to settle outstanding issues. He was glad the Minister had volunteered to give the Bank information to allow it to judge the reasonableness of Algeria's efforts so far, but he did not wish to hide from the Minister the fact that this was a substantial problem, that a lot of work would have to be done, and that many of the Bank's requests for additional information might be burdensome. They would not be made with the intention to cause the Government additional administrative burdens, but to conform to the policies of the Bank. The Minister would find that the Bank had a history of fairness in examining and helping to settle such situations in cases even more complicated than the Algerian situation.

Mr. McNamara referred to the Minister's statement that no further studies were necessary before lending could proceed. He recalled that the last economic mission had gone to Algeria in 1966 and that its report was now completely out of date. A new economic mission was therefore essential. In this general context, Mr. McNamara wanted to alert the Minister that he would be frequently disappointed by some of the slowness of the Bank's way of operating, but that the thoroughness of the work to be done was in the interest of both the Bank and its borrowers.

Mr. McNamara concluded by saying that he, like the Minister, would be happy to let bygones be bygones. He was making a determined effort to assist the Arab World and the Bank was now active in countries like the two Yemens and the UAR, and very active, indeed, in North Africa. He was sure that the

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present Algerian Government was working very hard to promote the standard of living of its citizens, and he felt that it was one of his responsibilities to help a country where the Government had such a policy. While there might be delays before the first loan was made, he would feel that he had failed in his responsibility if the Bank was unsuccessful in reaching agreement with Algeria on lending operations.

The Minister asked whether Mr. McNamara could now give him an assurance that Algeria could receive Bank loans at the end of the present phase of exchange of information. Mr. McNamara replied that this would depend on the outcome of the examination concerning the nationalized properties. When the Minister recalled that one Member country, Israel, had received a loan although there were outstanding compensation issues, Mr. McNamara reminded him that the Bank's doctrine required "reasonable efforts" on both sides and not complete settlement.

cc to Mr. McNamara (2)  
Mr. Knapp  
Mr. Hartwich

MPBenjenk:rpo

Copenhague, le 21 septembre 1970.

Monsieur le Président,

Suite à l'entretien que vous avez bien voulu m'accorder le 19 septembre 1970 à Copenhague, j'ai l'honneur de vous adresser ci-joint une communication écrite sur les sujets abordés au cours de cet entretien.

J'ai, pour ma part, apprécié l'esprit de franchise et de compréhension dans lequel cet entretien s'est déroulé.

Veillez agréer, Monsieur le Président, les assurances de ma haute considération.



Ismaïl MAHROUG  
Ministre des Finances  
de la République Algérienne  
Démocratique et Populaire

Monsieur Robert McNamara,  
Président de la Banque Internationale  
pour la Reconstruction et le Développement,  
Copenhague.

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~~C O N F I D E N T I E L~~

NOV 28 2012

Copenhague, le 21 septembre 1970.

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COMMUNICATION

de M.le Ministre des Finances

de la République Algérienne Démocratique et Populaire

à

M. le Président de la Banque Internationale  
pour la Reconstruction et le développement

Voilà huit ans que l'Algérie a acquis son Indépendance au prix de lourds sacrifices humains et matériels, et sept ans qu'elle a adhéré aux institutions internationales dont elle attendait une participation active à sa reconstruction puis à son développement. Depuis 1963, l'Algérie a cherché à entamer avec la Banque mondiale un dialogue devant permettre de définir les voies et moyens d'une participation de cette institution à l'effort d'investissement. Les missions du Fonds monétaire international et de la Banque Mondiale en Algérie de 1965 - 1966 nous ont fait espérer, au vu des conclusions des différents rapports qui ont été établis par ces deux organisations, que notre pays ne tarderait pas à recevoir des moyens de financement appliqués à des projets de développement. Et pourtant, l'Algérie n'a reçu aucun prêt de la Banque Internationale depuis son accession à la souveraineté internationale alors qu'avant l'Indépendance, elle avait bénéficié de trois prêts obtenus pour des projets présentés par le secteur privé ou le secteur public colonial.

Il semble que l'un des obstacles, sinon le seul, à une coopération franche et concrète entre la Banque mondiale et mon pays au stade actuel, réside dans le problème des indemnisations de certaines entreprises qui ont été nationalisées par le Gouvernement algérien dans le cadre de sa politique de récupération et de maîtrise de ses ressources économiques. Mon Gouvernement s'est déclaré de tout temps prêt à aborder franchement ce problème et à répondre aux préoccupations de la Banque mondiale dans le respect de sa souveraineté nationale et des intérêts légitimes de son économie nationale.

Au demeurant, les nationalisations intervenues n'ont pas fait jusqu'ici obstacle à une coopération fructueuse avec les pays intéressés aussi bien au niveau gouvernemental qu'au niveau des entreprises du secteur privé. Je n'en veux pour preuve que la coopération économique et financière extrêmement étendue qui continue à se développer avec la France, les Etats-Unis, la Grande-Bretagne, la République Fédérale d'Allemagne, et d'autres pays encore, parallèlement au développement de notre collaboration avec les pays socialistes.

Si nous revenons au problème des nationalisations qui semble préoccuper la Banque mondiale à un point tel qu'elle s'est interdit jusqu'à maintenant de donner une suite favorable à nos demandes répétées de crédits, le Gouvernement algérien estime, quant à lui, que le moment est maintenant venu de clarifier sans équivoque la situation de manière à lever définitivement tout obstacle qui s'oppose à l'éligibilité des projets de développement formulés par mon Gouvernement, au financement de la Banque mondiale.

Le Gouvernement algérien attend également de cette confrontation loyale et franche des points de vue respectifs de la Banque et de l'Algérie, une clarification qui aurait son importance pour le développement futur



de l'économie algérienne. Nous sommes en effet anxieux, au moment où la nation mobilise toutes ses ressources intérieures et tous les concours des pays amis pour réaliser son deuxième plan de développement qui devra hisser l'économie algérienne au stade du développement accéléré et auto-entretenu, de savoir si nous pouvons réellement compter sur des concours importants et diversifiés de la Banque internationale à laquelle l'Algérie avait apporté son adhésion enthousiaste au lendemain de son Indépendance.

Dans cette perspective d'une confiance retrouvée et d'une coopération étroite, le Gouvernement algérien se déclare prêt à aller au fond du débat relatif aux nationalisations et il est convaincu que les explications qui seront données, seront à mêmes de convaincre les autorités de la Banque mondiale de sa bonne foi comme de la légitimité des mesures qu'il a prises sur le double plan des expropriations et des indemnisations y afférentes.

Sur le plan des nationalisations proprement dit, je ne voudrais pas revenir sur les raisons avant tout économiques qui les ont provoquées, Le mémorandum qui a été communiqué par mon prédécesseur à M. le Président de la BIRD, l'an dernier, ainsi que le mémoire qui a été transmis à la Banque le 10 juin 1970 par un de nos conseillers juridiques, contiennent les éléments essentiels qui permettront aux autorités de la Banque mondiale de juger du bien-fondé des motifs qui ont poussé le Gouvernement algérien à s'appropriier, par la voie de la nationalisation, certains patrimoines dont la gestion ne lui apparaissait pas compatible avec le développement accéléré d'une économie indépendante.

Je voudrais tout simplement noter que la nationalisation n'a pas constitué la seule procédure juridique de développement du secteur public de notre économie, que nous avons eu souvent recours à la procédure du rachat à l'amiable avec les entreprises qui ont compris

et admis les ressorts et les buts de notre politique économique et qui non seulement ont accepté de céder à l'Etat le contrôle de leurs investissements existant mais, ont adhéré à de nouvelles formes de coopération aussi fructueuses pour elles que l'investissement direct. Les exemples sont nombreux de la mise en application de cette politique d'appropriation publique par la voie des rachats puisqu'elle s'est appliquée avec succès, à la satisfaction de la puissance publique algérienne et des investisseurs concernés, en de nombreuses branches de l'économie nationale: Banques, assurances, transports, exploitations et distribution de produits pétroliers, industries de transformation, etc.

Le secteur public algérien s'est également considérablement développé, parallèlement au secteur privé national de l'économie par le biais des investissements portant sur des projets nouveaux consentis par l'Etat dans le cadre de son plan de développement.

Aujourd'hui l'économie de l'Algérie nouvelle fait preuve d'un dynamisme et suit un rythme de croissance qui ne nous semble pas dépourvu d'écho dans le Tiers-Monde, et qui suscitent sympathie et volonté de coopération de la part de nombreux pays industrialisés, élargissant ainsi le crédit international de l'Algérie. Cela, nous le devons à la politique cohérente et stable de développement national du Pouvoir politique, ainsi qu'à la volonté ardente du peuple algérien de consentir les efforts nécessaires pour sortir, dans les meilleurs délais, de l'état de sous-développement auquel l'avait condamné plus d'un siècle d'un régime colonial.

En d'autres termes, les nationalisations intervenues, et que certains nous reprochent, ont sans conteste permis à l'Algérie nouvelle de mieux disposer de ses potentialités matérielles et humaines; elles se sont révélées à l'expérience une condition nécessaire pour accélérer le développement économique national; mais elles sont loin d'avoir constitué le seul facteur du développement généralisé auquel nous assistons, et elles n'ont constitué

qu'un moyen parmi d'autres de l'extension du secteur public national.

Si maintenant nous regardons de plus près les problèmes des indemnisations afférentes aux patrimoines expropriés, la position de mon Gouvernement trouve son entière justification: lorsqu'il nous a été possible d'inventorier les actifs et les passifs des entreprises nationalisées, grâce à la possibilité d'accès aux documents comptables nécessaires <sup>ou</sup> à la coopération loyale des entreprises, les pouvoirs publics ont fait diligence pour donner une suite favorable et concrète aux demandes qui leur paraissaient fondées. C'est le cas, entre autres, des sociétés pétrolières comme Philips, Shell, Mobil, Esso. Ces cas témoignent de la bonne foi et du sérieux du Gouvernement algérien, qui entend à respecter les engagements d'indemnisation ou de compensation pris dans le cadre de sa propre législation. Si d'autres dossiers n'ont pas fait l'objet d'un règlement aussi satisfaisant, nous sommes prêts à démontrer que nous ne sommes pour rien dans une telle situation et qu'il faut en imputer la responsabilité à nos partenaires qui continuent, sous le prétexte des nationalisations, à livrer à l'Algérie nouvelle un combat d'arrière-garde de type colonial. Dans cette attitude hostile au développement accéléré et indépendant de l'Algérie, nous devons dénoncer une catégorie d'investisseurs dont la mentalité rétrograde entrave la coopération entre pays non-industrialisés et pays avancés ainsi que l'instauration d'un type nouveau de relations internationales que des institutions comme la Banque mondiale appellent de leur vœux. Appartiennent à cette catégorie d'intérêts coloniaux avec lesquelles l'Algérie rencontrera toujours des difficultés parce qu'un langage commun n'est pas possible avec eux, des entreprises comme l'ancienne société minière de l'Ouenza. Il est de mon devoir de signaler à la Banque mondiale, à titre d'exemple, la bonne volonté de mon Gouverne-

ment qui, en l'espèce l'a amené à avoir recours à un médiateur en la personne d'un conseiller d'Etat français que nous avons choisi après consultation du Gouvernement français. La mission de ce conciliateur n'a pas pu être menée à bonne fin du fait que les dirigeants de l'ancienne société de l'Ouenza ont préféré conserver par devers eux les 30 millions de Francs qu'ils détenaient illégalement hors du territoire algérien, au lieu de se prêter avec nos autorités à une discussion sérieuse sur l'indemnisation des actionnaires.

Sur un plan plus général et parce qu'il nous a été donné de constater que l'un des membres les plus influents de la Banque fait montre au sein de votre institution d'une opposition constante à l'octroi de crédits internationaux à mon pays, il est de mon devoir d'élever une protestation contre cette attitude qui n'est pas au demeurant conforme à l'esprit de coopération qui anime nos relations bilatérales. Le problème des indemnisations posé par ce pays n'empêche pas de fournir un financement relativement important pour le développement de l'Algérie.

Pour me résumer, je dirai que le Gouvernement algérien n'a pas seulement l'intention d'appliquer rigoureusement à ces problèmes sa propre législation sur les indemnisations des patrimoines qu'il s'est approprié, mais il s'est engagé activement dans la voie d'un règlement effectif dans la mesure où ses partenaires coopèrent loyalement aux évaluations des actifs et passifs. Réduit à ses dimensions véritables, le problème des nationalisations et des indemnisations ne saurait plus désormais constituer aux yeux des institutions financières internationales un obstacle majeur à l'octroi de prêts de développement à l'Algérie. Aussi mon Gouvernement forme le vœu que la présente rencontre avec les hautes autorités de la Banque mondiale, soit suivie d'une reprise active de ses relations avec votre institution. Cette reprise pourrait aboutir à l'octroi de prêts pour aider au financement du plan quadriennal dans sa période de démarrage. Notre espoir de renouer les liens de compréhension mutuelle est à la hauteur de la volonté du Gouvernement et du peuple algériens de mener à bien notre entreprise de développement économique, social et culturel dont le plan quadriennal marque une nouvelle étape. Pour ceci l'Algérie n'épargnera aucun sacrifice sur le plan interne et aucun effort de dialogue avec l'extérieur.

Si le sentiment intime des autorités de la Banque rejoignait désormais notre conviction et que par conséquent un accord général intervient pour relancer nos relations à tous les niveaux, il pourrait s'en suivre une décision importante, à savoir l'entrée effective de l'Algérie, en tant que pays membre de la Banque mondiale, dans le cycle des projets de prêts octroyés par celle-ci en faveur des pays qu'elle considère comme aptes à l'éligibilité au financement international.

Dans la perspective d'une intervention rapide de la Banque mondiale en faveur de l'Algérie, je me permettrais de suggérer que les services de votre institutions prennent, à la faveur de contacts à prendre avec les membres de notre délégation, la mesure de l'état actuel de l'économie algérienne et de ses perspectives de développement d'ici 1973. Les dimensions du plan quadriennal et l'ampleur des objectifs qui y sont inscrits en matière de croissance du produit national brut ont été largement soulignées par nos soins tout au long des derniers mois. Les projets d'investissement qui, nombreux, touchent aux branches d'activité les plus diverses sont destinés à consolider, mieux encore, à renforcer, les résultats obtenus dans le cadre du plan triennal 1967-1969. Ils visent tout autant à accélérer l'équipement du pays dans le domaine industriel et à promouvoir l'amélioration et la diversification des techniques agricoles qu'à développer les infrastructures en matière de routes, de ports, de barrages et d'électrification.

Mais si notre Gouvernement a lancé en 1970 un second plan caractérisé par un nombre important de projets d'investissement dans les domaines visés plus haut, il n'a pas, loin de là, perdu de vue la nécessité de fixer en matière de formation des hommes et d'organisation des structures financières du pays des objectifs qui soient à la mesure de nos ambitions dans le domaine du développement industriel et agricole. C'est ainsi qu'un programme de mise sur pied d'instituts technologiques a été lancé

Dans ce cadre un institut technologique agricole a été crée dès cette année tandis que d'autres instituts touchant aux branches industrielles à la gestion financière des entreprises et organismes publics et au traitement de l'information sont sur le point d'entrer en activité. D'autre part, des laboratoires pour la mise en valeur des ressources de notre sous-sol sont en passe d'être implanté à travers le territoire national.

Au plan de l'organisation de nos structures financières, des dispositions ont été déjà prises en vue d'en assurer une utilisation plus rationnelle.

Au niveau des entreprises, les mesures ont porté sur un examen approfondi de leur situation appelé à déboucher sur une consolidation de leur assise financière grâce notamment à un assainissement de leurs méthodes de gestion.

Les modes de financement du développement ont également été revues pour que soient distingués dans ce financement les moyens mobilisés auprès du Trésor public et les ressources procurées par notre secteur bancaire à partir de la collecte de l'épargne nationale parallèlement à la distinction plus nette aujourd'hui entre les investissements à rentabilité éloignée ou réduite et ceux directement et rapidement productifs.

Dans le même temps, le financement des besoins courants des entreprises nationales par le canal de banques primaires spécialisées a permis une meilleure appréciation de ceux-ci et par voie de conséquence contribué à dégager toutes les ressources d'épargne disponibles en vue d'assurer un financement mieux adapté du développement.

Dans cette ordre d'idée, la Caisse Algérienne de Développement a été chargée de la direction des financements hors-budget des investissements aussi bien publics que privés. Dans le soucis d'accroître l'efficacité de ses interventions, des

études sont actuellement en cours pour faire de la Caisse une véritable banque de développement.

Notre pays est en mesure de présenter à la Banque une liste de ces projets allant de projets d'irrigation au projet de liquéfaction de gaz naturel destiné à l'approvisionnement du marché américain en passant par le projet de route transaharienne El-Golea - In Salah - Tamanrasset ou encore le projet de valorisation des minerais de fer extraits de Gara-Djebilet pour lequel les autorités marocaines et algériennes s'activent à régler les conditions générales de sa réalisation dans un esprit de fraternité retrouvée.

Nous souhaitons que la Banque procède avec notre Gouvernement à la sélection en commun de projets que leur état de préparation permettrait de soumettre à la procédure d'évaluation par la Banque afin que la phase de négociation soit officiellement déclenchée.

Nous sommes convaincus que si la Banque le désire réellement, il sera possible d'aller très vite pour limiter la durée du cycle qui va de la sélection des projets à la signature des accords de crédits ou de prêts. Ceci manifestera aux yeux de tous l'intérêt porté par les institutions financières internationales au développement de l'Algérie. Celle-ci pourra alors se considérer comme un membre à part entière de ces institutions. Ce faisant, la Banque et l'Algérie auront retrouvé un climat de coopération et de confiance réciproque, propre à stimuler à l'avenir les relations qui unissent les institutions internationales et les pays du Tiers-Monde qui fournissent l'effort nécessaire sur le plan interne pour promouvoir leur développement. Cette collaboration sera d'autant plus prometteuse qu'elle renaîtrait à un moment où l'économie algérienne prend son essor dans la stabilité et la sérénité. Ainsi aurons-nous, les uns et les autres, contribué au renforce-

ment de la coopération internationale et donné l'exemple de notre capacité à surmonter toutes les difficultés inhérentes au processus de décolonisation et à l'émergence des jeunes pays d'Afrique dans le concert des Nations.



9/19  
Copenhagen, September 21, 1970.

Mr. President,

Following our conversation in Copenhagen of September 19, 1970, I enclose herewith a memorandum on the topics we discussed.

I personally appreciated the spirit of frankness and understanding in which our conversation took place.

Yours sincerely,

Maurog

Small MAHROUG  
Minister of Finance  
Democratic People's  
Republic of Algeria

President has seen

Mr. Robert S. McNamara,  
President of the International Bank  
for Reconstruction and Development,  
Copenhagen.

Copies given by the  
Minister to Messrs Krapp  
and Benguet

M E M O R A N D U M

Eight years have elapsed since Algeria regained Independence at the price of heavy human casualties and material losses, and seven years have passed since my country joined the international organisations, from which it anticipated a contribution to its reconstruction and development.

Since 1963, Algeria has endeavoured to initiate with the World Bank a relationship through which ways and means could be worked out to channel investments. The missions sent by the International Monetary Fund and the World Bank to Algeria in 1965-1966 and the conclusions they reached in their various reports gave birth to fair hopes that our country would soon be allowed means of financing our development plans. However, no loan was granted to Algeria since it recovered international sovereignty while before Independence, under French colonial rule, it had been granted three loans for projects sponsored by public and private owners.

It seems that one main obstacle, if not the only one, to a frank and fruitful co-operation between the World Bank and my country at the present stage lies in the question of indemnifications of some concerns which were nationalized by the Algerian Government within the framework of a policy aimed at regaining control of its economic resources. My Government has always declared its readiness to face that problem and meet the World

Bank's preoccupations within the limits of our national sovereignty and the legitimate interests of our national economy.

Furthermore, the nationalisations carried out, up to now, have not hampered a fruitful co-operation with the countries concerned as well on Government as on private level. Proof of this willingness on their part to continue our co-operation might easily be found in the developing co-operation initiated on economic and financial fields between Algeria and France, Great-Britain, the United States, Federal Germany, etc., and which developed at the same time as our co-operation with Socialist countries.

Going back to the questions of nationalisations which seem to be of such concern to the World Bank as to have delayed action on our applications for loans, the Algerian Government thinks the moment has come to clarify the situation beyond any doubt so as to lift unequivocally all obstacles to the eligibility of ~~these~~ projects by the World Bank for financing.

The Algerian Government also expects that this open and frank confrontation of our respective points of view will lead to a significant clarification for the future development of the Algerian economy. We feel anxious, at a moment when our Nation is mobilizing all its internal resources and trying to ~~enlist~~ the help of all friendly countries to carry through a second Development Plan that will bring Algeria to a level of an accelerated and self-supporting development, to know whether we may really rely on an important and diversified help by the World Bank, which Algeria had enthusiastically joined after Independence.

In a prospect of a regained confidence and of a ~~close~~ co-operation, the Algerian Government declares itself ready to discuss at ~~depth~~ the question of nationalisations. The Algerian Government wishes to express its conviction that all ~~explanations~~ given can persuade the World Bank of its good faith and the lawful character of all steps taken both as far as expropriations, as well as indemnifications are concerned.

As concerns the nationalisations, I do not deem it necessary to ~~comment~~ again on the reasons, of a primarily economic character, that brought them about. The memorandum which my predecessor sent to you last year, and the Memorandum sent to the World Bank on June 10, 1970, by one of our juridical advisers, contain the essential elements that can allow the World Bank authorities to judge the rightful reasons that brought the Algerian Government to take over, by a process of nationalisation, certain ~~property~~es whose management did not seem in tallying with the accelerated development required of an independent economy.

I wish to point out here that ~~nationalisation~~ was not the only juridical process <sup>for the development</sup> of the state-owned part of our economy. We also often acted by way of amicable purchase of privately-owned concerns whose proprietors understood and admitted the reasons and aims of our economical policy. They not only accepted to hand over to the State control of already existing investments but also adhered to new forms of partnership as fruitful ~~for~~ them as direct investment. Many examples could be given of this policy of nationalisation through purchasing, successfully carried out to the satisfaction both of the Algerian State <sup>of</sup> and the investors concerned in many branches of the economy: banking, insurance, transport, exploitation and distribution of petrol, mechanical industry, etc.

The State-owned part of Algerian economy has also considerably developed, along with the privately-owned sector, owing to investments made by the State within the framework of its Development Plan.

To-day, Algeria's economy shows a dynamic progression and a rate of growth that does not seem unnoticed in the Third World, and arouses a sympathetic interest and a will to co-operate from industrialised countries thus strengthening of Algeria's international standing. We owe this to a coherent and stable policy of our Government, aiming at national development, as well as to the strong will of the Algerian people to accept the hardships necessary to overcome its state of economical underdevelopment after more than one century of colonial rule.

In other words, the nationalisations which we carried out and we are often reproached with, have without any doubt allowed Algeria to dispose in more rationally of its human and material potentialities; they turned out, when faced with reality, as a necessary condition to speed up the economical development of our Nation. But they are far from being the only factor of generalised development which we can now see going on in our country, remaining only one among many ways to extend the state-owned part of our economy.

Addressing ourselves more particularly to the problems of compensations relating to expropriated goods the position of my Government is abundantly justified: when we came in a position to single out the assets and the liabilities of the nationalized firms after having taken cognizance of the requisite statements of account or thanks to the frank co-operation of the firms, the Government took steps to expedite a favourable and concrete settlement for the claims which appeared to be legitimate, such as the case among others of oil companies like Philips, Shell, Mobil and Esso. These cases bare witness of the goodwill and of the earnestness of the Algerian Government which intends to respect commitments of indemnifications

or compensation taken within the framework of its own legislation. Whilst other claims have not received such satisfactory settlement, we are prepared to prove that we are noway responsible of such a state of affair. The responsibility beeing in fact incumbant upon our partners who continue to oppose rear-guard actions of colonial type to Algeria by invoking the pretext of nationalisations. Such a hostile attitude to the accelerating and independent development of Algeria is that of a category of investors whom we deny and whose reactionary approach is a hindrance to co-operation between non-industrialized and advanced countries and also to the establishment of a new type of international relations earnestly desired by institutions such as the World Bank. Firms such as the former mining company of Ouenza belong to this category of colonial interests with which Algeria will always encounter difficulties because of the impossibility of finding a common language with them. It is therefore my duty to point out to the World Bank, by way of illustration, the good will of my Government which in ~~the~~ case in point led it to resort to a mediator who was a member of the French Council of State and who was chosen after consulting the French Government, The mission of this conciliator did not reach a satisfactory conclusion because of the fact that the executives of the former Ouenza company chose to hold on to the 30 million francs which they kept illegally outside the Algerian territory instead of accepting to discuss seriously with our authorities the topic of compensations to shareholders.

Generally speaking we have noted that one of the most influential members of the Bank has constantly opposed the granting of international credits to my country and it is therefore my duty to raise a protest against this attitude which furthermore is not in compliance with the co-operative spirit existing in our bilateral relations. The problem of indemnification raised by this

does not prevent it from supplying a relatively important financial contribution to development of Algeria.

To sum up I would say that the Algerian Government not only has the intention as regards these problems to implement its own legislation on compensation for property which it has taken over but is also engaging actively on ~~the~~ research for an effective settlement in so far as its partners co-operate frankly in evaluation of their assets and liabilities. The problems of nationalisations and compensations, when reduced to its true proportions, should not therefore be considered in the future by international financial institutions as a major obstacle to the granting of loans to Algeria. This is why my Government expresses the wish that the present meeting with the high authorities of the World Bank will be followed by an active resumption of its relations with your institution. This resumption could lead to the granting of loans for financing the Four Years' Plan in its inception. Our hope to re-establish ties based on mutual understanding is only equalled by the will of the Algerian Government and people to insure the success of our endeavours to achieve economic, social and cultural development, the Four Years' Plan being a new stage. In this direction and in order to achieve this, Algeria will spare no sacrifice on the internal plane and no effort of dialogue with the outside world.

Were the management of the Bank to share henceforth our conviction and were this to lead to general agreement to reactivate our relations at all levels, an important decision would follow, i.e., the effective participation of Algeria as a Member-State of the Bank, in the cycle of perspective loans granted by the Bank to countries which it considers to qualify for international financing.

With the rapid intervention of the World Bank in favour of Algeria in view, I would suggest that the staff of your institution take the opportunity of contacting the members of our delegation to gauge the present state of the Algerian economy and its development perspectives until 1973. The scope of the Four Year Plan and the importance of the targets which has been set for the growth of gross national product have been stressed outlined in detail by us in the course of the last months. Numerous investment projects pertaining to a wide range of activities are intended to consolidate, nay more, to improve upon the results achieved in the framework of the Three Year Plan 1967-1969. Their goal is to accelerate investment in a country in the industrial sector and to promote the improvement and diversification of agricultural technical processes as well as to develop infrastructure as regards the building of roads, ports, dams and as regards the distribution of electricity.

While, launching in 1970 a second plan including a large number of investment projects in the fields mentioned above, our Government did not, far from it, neglect the need to set targets as regards training and the organization of financial framework in the country which were proportionate to our ambition in the field of industrial and agricultural development. This is why a program was launched for setting up institutes of technology. In this context an institute of agricultural technology has already been established this year and other institutes concerning different industrial sectors, the financial management of public companies and corporations and of information, are about to begin their operations. Furthermore, we are now in the process of setting up in different parts of Algeria laboratories to process underground resources.



As regards our financial framework, steps have been taken to rationalize its efficiency. Measures taken at the level of the firm were aimed at a thorough study of the situation in order to reinforce their financial basis mainly through an improvement in the methods of management.

The alternative ways of financing development were also reconsidered in order to distinguish in this kind of financing, the funds provided by the Treasury and the funds provided by our banking sector and which originate from the collecting of national savings; likewise a clearer distinction is now drawn between investments with distant or limited returns and those that are immediately and rapidly productive. Simultaneously, the resort to the financing of current expenditure of national enterprises through specialised primary Banks made it possible better to appraise these needs, this has consequently contributed in allocating all readily available savings in such a way as to insure methods of financing which are best adapted to development.

In this context the Algerian Development Board was entrusted with the responsibility of financing non-budgetary investments be they public or private. Considering the necessity to increase the efficiency of its operations, studies are now under way to change the Board into a real Development Bank.

Our country is in a position to submit to the Bank a list of such projects including projects of irrigation and the project for the liquifaction of natural gas to supply the American market, including also the trans-Sahara roadway from El Golea to In Salah and Tamanrasset and the project for the exploitation of iron ore from Gara-Djebilet, the Moroccan and Algerian authorities being now engaged actively on setting general terms of its implementation in a new spirit of fraternal understanding.

We should wish the Bank to select jointly with our Government the projects whose state of preparation would enable them to be submitted to the procedure of evaluation by the Bank, so that the phase of negotiation would be officially opened.

We are convinced that should the Bank really so desire, it would be possible to proceed very expeditiously in order to shorten the phase of the cycle between the selection of projects and the conclusion of the credit or loan agreements. This would provide general evidence of the interest given by international financial institutions to the development of Algeria. This country would then consider itself as a fully-fledged member of the aforementioned institutions. The Bank and Algeria would thereby have restored a climate of co-operation and mutual confidence, thus stimulating the future development of relations between international institutions and the countries of the Third World which provide the necessary effort at the national level to promote their own development. This collaboration would be all the more fruitful since it would be resumed at a time when the Algerian economy is moving forward in a context of stability and assurance. In this way we would contribute on both sides to the strengthening of international co-operation and would set as an example our capacity to overcome all difficulties inherent to the process of decolonisation and to the emergence of new countries of Africa joining the family of Nations.



September 20, 1971

MEMORANDUM OF CONVERSATION WITH MAHFOUD ZEROUTA, EMISSARY OF THE MINISTER OF FINANCE OF ALGERIA, April 16, 1971

Mr. Zerouta was accompanied by Mr. Benjenk. He said the Minister of Finance had asked him to convey to Mr. McNamara that the Government was very grateful for the Bank's cooperation, particularly in connection with Mr. Benjenk's visit to Algeria. As to compensation issues arising from the Government's expropriations of certain foreign investments, he wished to stress that the Government was doing its best to have these problems settled in a mutually acceptable way. Bilateral negotiations were under way with France. The Finance Minister was very hopeful that solutions would be found in the near future.

Mr. Zerouta then said the Government wished to invite Mr. McNamara to Algeria. Mr. McNamara said that at some time in the future he would like to do so. Meanwhile, he wished to assure the Government of the Bank's interest in resuming lending operations in Algeria. He hoped that the Government, on its side, would move ahead quickly to settle the compensation issues.

LEC

September 14 1971

ALGERIA : Visit of Mr. Abdelkader Bouselham

Mr. McNamara received on March 16 the visit of Mr. Bouselham, head of the Algerian Interests Section in Washington, who had taken up his appointment in Washington on January 1. Mr. Benjenk attended the meeting.

Mr. Bouselham told Mr. McNamara that he was calling to introduce himself, since he had recently taken up his functions in Washington. He said that Algeria derived great satisfaction from its recently improved relations with the Bank after the Copenhagen Annual Meeting. They were particularly pleased with the speed with which the Bank had sent an economic mission, followed by a project identification mission. Mr. Bouselham also said that the Algerian authorities were working on the information which had been promised to Mr. McNamara by the Algerian Finance Minister, Mr. Mahroug, on the nationalization/compensation issue, and some of this information would soon be sent to Washington.

Mr. McNamara replied that he too was pleased with the dialogue which had begun between Algeria and the Bank. He added that he was glad to hear from Mr. Bouselham that the information promised in Copenhagen would soon be sent to the Bank. This was an important matter for the Bank in view of the general policies it followed on compensation and nationalization. Mr. Bouselham thanked Mr. McNamara for his courtesy in receiving him.



M.P. Benjenk

NOV 28 2012

WBG ARCHIVES

## OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara

FROM: M.P. Benjenk *ml*

SUBJECT: ALGERIA: Visit of Mr. Abdel Kader Bousselham

DATE: March 16 1971

The Head of the Algerian Interest Section in Washington, Mr. Bousselham, will call on you today at 5:30. Mr. Bousselham is a senior member of the Algerian Foreign Service who took up his duties towards the end of last year after having served as Chief of Protocol of his Ministry. Since 1967 Algerian Interests in the United States have been entrusted to the Embassy of the Republic of Guinea.

Although this is a courtesy call the following topics may come up during the conversation:

1. The Bank's Relations with Algeria: As you will remember our relations with Algeria were rather cool until the Annual Meeting in Copenhagen. Your conversation with the new Algerian Finance Minister, Mr. Mahroug, initiated a thaw in our relations with Algeria, after we had explained to the Minister our general policy on compensation for nationalized property and had obtained from him a promise that Algeria would exert the "reasonable efforts" which our doctrine requires before we can lend to countries which have nationalized industries.

The Algerians welcomed our agreement to proceed with the usual steps preceding resumption of lending, namely preparation of an economic report and the successive visits of a project identification mission and an appraisal mission; we agreed to this on the understanding that they themselves would work on the compensation issue and send us the documentation concerning nationalized firms which we had previously asked for in vain. Since last September we have fulfilled on schedule our part of the bargain. I myself spent a week in Algiers at the beginning of October, was followed by the economic mission in late November and by a project identification mission in February. That mission has just returned and seems to have brought back enough material to enable us to draft a five-year lending program to Algeria in due course. There is no doubt that the economic mission, which will shortly produce its report, will declare Algeria creditworthy for Bank lending.

On the Algerian side of the bargain, things have been much less satisfactory. After a long period of silence on the compensation issue we have today received what is said to be a first installment of the information which they had promised. This deals with the nationalization of banks and is the least controversial of all nationalizations, since the banks were purchased outright by Algeria at an agreed price. I presume we shall be receiving other material on those aspects of the nationalization issue where "reasonable efforts" to settle can be easily demonstrated. Much more important, however, than past nationalizations is the major new nationalization issue which has just arisen, namely that of the French oil companies. While Algeria has promised compensation for this new act, conversations between the two sides have not yet started and the solution will certainly be very long and arduous. President Boumediene, in an interview with the French newspaper Le Monde, commented as follows when asked why Algeria's promise of compensation for this new nationalization should be believed,

President has seen

March 16 1971

bearing in mind the fact that Algeria had not paid compensation to previous nationalized organizations. The President said that for the past six months Algeria had offered the French negotiators a choice between discussing these compensation issues bilaterally or, alternatively, under the auspices of the World Bank. There had been no reaction to this and France had gone as far as to request the World Bank to withhold lending from Algeria which, said the President, "is a procedure which we did not appreciate very much."

2. The El Paso Project: In the meantime the Algerians are more anxious than ever to secure loans from the Bank and in particular they would like Bank involvement in the El Paso gas project which is already far advanced and to which Federal Power Commission is expected to give its blessing sometime this spring. This is a \$500 to \$600 million project for which joint or parallel financing would probably be the ideal solution, depending to some extent on the attitude of the Export-Import Bank. The latter has, I am told by reliable sources, already made a tentative commitment to provide \$285 million for American procurement for this project provided the remaining minor nationalization issues of U.S. properties are resolved. The Algerians are anxious to have this project financed by the various interested lenders before the end of the year, which would mean appraisal this summer or even earlier as far as the Bank is concerned, and the Minister of Finance of Algeria has just written to you (letter now  
Attached:-----being translated) asking whether the Bank is willing to go forward with the project. I myself see no reason why we should not appraise a project of this importance, but on the other hand we should once again remind the Algerians that they have to make much more progress with their unresolved nationalization cases (including the most recent ones) before we go to the Board with a loan proposal.

This may be another instance where the Bank can usefully play a mediating role between the parties concerned. If the French have any hopes of holding up the El Paso project by relying on the Bank's compensation doctrine, they are likely to be disappointed, since it is probable that the Algerians could scrape up sufficient bilateral export credits to finance the project anyway, although at much higher cost. If this were done under our auspices the French would have a much better chance of obtaining substantial contracts in such a large project, in an area in which they are familiar.

3. Invitation to visit Algeria: I have heard from the State Department that the Minister of Foreign Affairs of Algeria, Mr. Abdel Aziz Bouteflike, has mentioned the Algerian's desire to see you visit their country and an invitation may be extended to you.

#### Conclusion

Mr. Boussselham has visited a number of personalities in Washington during the past two or three weeks, including the Secretary of State and the President of the ExIm Bank. I am not sure that he will raise with you any of the questions mentioned in this memorandum, except perhaps for the invitation to visit Algeria. He is a relatively modest man in appearance but, I am told, an able diplomat.

Mr. Tazi, who asked for the appointment for Mr. Boussselham, will be accompanying him, which makes me doubt that Mr. Boussselham intends to discuss very sensitive matters. I would adhere to an equal reserve unless he broaches the more delicate subjects.

cc: Mr. Knapp

Unofficial Translation

DEMOCRATIC PEOPLE'S REPUBLIC OF ALGERIA

Algiers, March 11, 1971

Finance Ministry

The Minister

No. 471

President of the International  
Bank for Reconstruction and  
Development

Mr. President,

During our meeting at the joint Annual Meeting of World Bank and International Monetary Fund, you indicated your willingness for your institution to participate in the substantial development effort undertaken by Algeria. Since then various Bank missions have come to our country, and I am particularly glad to note the diligence and interest which you and your collaborators whom I have met have shown towards Algeria.

The project identification mission which you were kind enough to send to Algeria has studied in detail various aspects of the project for exports of gas to the United States, and it has shown interest in this project.

It seems to me opportune to make a formal request for financing to the International Bank.

Furthermore I would like to ask you to let me know your decision concerning the participation of your institution in the financing of the project for exporting gas to the United States.

The importance of this project, its economic interest both for Algeria and the other countries which may participate in its implementation and its financial profitability are the elements that make me hope for a favorable response to this request.

Following discussions with the members of the project identification mission, the Algerian administration has started to work out a new financing plan which will be sent to you as soon as possible.

In this respect it would be important for me to know the amount of your participation in case you should decide to participate in the financing of this project.



Furthermore it would be useful for me to know which role the World Bank could play in the mobilization of other financing sources which would be envisaged for this project.

Without prejudging either the form or the amount of Bank financing, I would like to stress our wish to see you take into account in your decision the following considerations: on the one hand, the urgency of the operation given the engagements already undertaken, and on the other, the cost of the project and the high expenses which it entails.

Detailed information as well as the documents concerning the various parts of the project have been given to the members of the identification mission; of course, we will be at your disposal to furnish you with all complementary data.

In this connection I want to point out that the financial aspects of the project are to be discussed directly with the Directeur Général of Caisse Algérienne de Développement whose firm has been designated to negotiate and to manage foreign loans and to be the contact for your Bank both for this project and for the other projects which may be financed by you.

Sincerely yours,

The Finance Minister

Signed: S. Mahroug

الجمهورية الجزائرية الديمقراطية و الشعبية  
REPUBLICQUE ALGERIENNE DEMOCRATIQUE ET POPULAIRE

Ministère des Finances

وزارة المالية

Alger, le 11 Mars 1971

*Le Ministre*

الوزير

N° 471

MONSIEUR LE PRESIDENT DE LA BANQUE  
INTERNATIONALE POUR LA RECONSTRUCTION  
ET LE DEVELOPPEMENT -

Monsieur le Président,

Lors de notre rencontre à l'occasion de la réunion annuelle conjointe de la Banque Mondiale et du Fond Monétaire International à Copenhague vous aviez manifesté votre volonté de faire participer l'institution que vous présidez à l'effort important de développement entrepris par l'Algérie. Depuis, différentes missions de la Banque se sont rendues dans notre pays et je me félicite particulièrement de cette diligence et de l'intérêt que vous même et vos collaborateurs que j'ai rencontrés témoignent à l'égard de l'Algérie.

La mission d'identification de projets que vous avez bien voulu dépêcher en Algérie, a longuement étudié différents aspects du projet d'exportation de gaz à destination des Etats-Unis et a marqué son intérêt pour ce projet.

.../...

Il me semble maintenant opportun d'adresser une demande formelle de financement à la Banque Internationale.

Aussi, ai-je l'honneur de vous demander de vouloir bien me faire connaître votre décision en ce qui concerne la participation de votre institution au financement du projet Exportation de Gaz à destination des Etats-Unis.

L'importance de ce projet, l'intérêt économique qu'il présente pour l'Algérie, aussi bien que pour les pays susceptibles de participer à sa réalisation ainsi que sa rentabilité financière sont autant d'éléments, qui me font espérer qu'une suite favorable sera réservée à cette demande.

A la suite des discussions qui se sont déroulées avec les membres de la Mission d'Identification des projets, l'administration Algérienne a entrepris l'établissement d'un nouveau plan de financement qui vous sera adressé dans les meilleurs délais.

A cet égard, il m'importe de connaître, au cas où vous décideriez de participer au financement de ce projet, le montant que vous envisageriez de consacrer à votre participation.

En outre, il me serait utile de savoir quel rôle pourrait jouer la Banque Mondiale dans la mobilisation des autres sources de financement qui seraient prévues pour ce projet.

Sans préjuger de la forme, ni du montant du financement que retiendra la Banque Mondiale, je voudrais souligner notre désir de voir votre décision tenir compte d'une part du caractère urgent de l'opération étant donné les engagements pris et d'autre part du coût du projet et des charges élevées qu'il entraîne.

.../...

Les renseignements détaillés ainsi que des documents concernant les différentes parties du projet ont été fournis aux membres de la Mission d'Identification ; nous restons bien entendu à votre disposition pour fournir toutes indications complémentaires.

Je vous précise à ce propos que les aspects financiers du projet sont à discuter directement avec le Directeur Général de la Caisse Algérienne de Développement dont l'Etablissement a été désigné pour négocier et gérer les prêts extérieurs et pour être le correspondant de votre Institution aussi bien pour ce projet que pour les autres projets susceptibles d'être financés par vos soins.

Veillez agréer, Monsieur le Président, l'assurance de ma considération distinguée.



LE MINISTRE DES FINANCES,

*S. Mahroug*

Signé : S. MAHROUG.

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September 20, 1971

MEMORANDUM OF CONVERSATION WITH MAHFOUD ZEROUTA, EMISSARY OF THE MINISTER OF FINANCE OF ALGERIA, April 16, 1971

Mr. Zerouta was accompanied by Mr. Benjenk. He said the Minister of Finance had asked him to convey to Mr. McNamara that the Government was very grateful for the Bank's cooperation, particularly in connection with Mr. Benjenk's visit to Algeria. As to compensation issues arising from the Government's expropriations of certain foreign investments, he wished to stress that the Government was doing its best to have these problems settled in a mutually acceptable way. Bilateral negotiations were under way with France. The Finance Minister was very hopeful that solutions would be found in the near future.

Mr. Zerouta then said the Government wished to invite Mr. McNamara to Algeria. Mr. McNamara said that at some time in the future he would like to do so. Meanwhile, he wished to assure the Government of the Bank's interest in resuming lending operations in Algeria. He hoped that the Government, on its side, would move ahead quickly to settle the compensation issues.

LEC

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MEMORANDUM FOR THE RECORD

Meeting with Mr. Abdelkader Bouselham, Minister Plenipotentiary of the Algerian Interest Section in the Embassy of Guinea, Washington, September 14, 1971

Mr. Bouselham, accompanied by a translator, called upon Mr. McNamara on September 14 to transmit a voluminous report on the Algerian Government's analysis of compensation claims arising from expropriation of foreign investments in Algeria. The Minister reiterated his Government's desire to come to a speedy solution of the outstanding problems. Mr. McNamara thanked the Minister and said he and his staff would study the documents carefully.

LEC  
October 12, 1971

President has seen



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## OFFICE MEMORANDUM

TO: Memorandum for the Record

DATE: October 26, 1971

FROM: R.H. Springuel *RHS*SUBJECT: Algeria - Meeting of the Minister of Finance with Mr. McNamara

1. On October 1, 1971 at the occasion of the Annual Meeting, Mr. McNamara received H.E. Smaïl Mahroug, Minister of Finance of Algeria, accompanied by Messrs. Mostefai, Belghoula, Saïbi, Djazairi, Bousselham, Zerouta, Tiab, Amalou and Temam. On the Bank side, Messrs. Knapp, Broches, Shoaib, Benjenk and Springuel were also present.
2. Thanking Mr. McNamara for receiving him, Mr. Mahroug said that much progress in the relations between Algeria and the Bank had been accomplished since Copenhagen. Several Bank missions had visited Algeria, and Algeria had taken several steps towards the solution of the nationalization issue. However, after a fast start last winter, an incident ("accident de parcours", literally an accident in the progress) had caused a distinct slowing down in the work of the Bank in Algeria, and Mr. Mahroug felt the incident was connected with the nationalization of the French oil companies.
3. Mr. McNamara replied that there had been no link between the oil companies nationalization and our work, and that it had not been our intention that such a link appeared.
4. Mr. Mahroug pursued that regarding the nationalization problem, Algeria had taken several important steps: first, much time and effort, in particular government staff time, had been spent to clarify and define the problems. This had permitted Algeria to take full conscience of all aspects of the problem, and had been summarized in the voluminous reports which had been given to the Bank. Second, Algeria had come very far towards the settlement of these problems. All the nationalizations in the oil sectors had been settled, regardless of whether they were at the expense of French or of other foreign countries. Important settlements were now starting to be made in the industrial sector, in some cases settlements having already been reached and in others, important offers having been made to industrial companies which accepted the sovereign right of Algeria to nationalize. These settlements were being made without differentiating between French or other enterprises since the French Government had now accepted that this matter should be treated directly between the enterprises concerned and the Algerian Government.
5. The Minister added emphatically that it was the firm intention of the Algerian Government to settle fully the problem; it would be settled soon, not necessarily in a manner pleasing to the interested parties, but taking into account the national interest of Algeria. Mr. Mahroug hoped that this question, which had been festering for a long time, would soon be put to rest.

*President has seen*

Memorandum for the Record

October 26, 1971

6. It was in this light that the Chief of the Algerian Government had charged Mr. Mahroug to raise again with Mr. McNamara the question he had asked in Copenhagen as to the intent of the Bank vis-a-vis Algeria. Algeria was wondering whether it could remain member of an institution without getting access to its benefits. The problem of nationalization was almost over. The economic report, established by Bank staff, was quite favorable and recognized the very important development effort of Algeria. Algeria was mobilizing vigorously its internal resources and following an austerity policy which was increasing, and would be increased further; in addition to these internal efforts, external help was needed but lagging. Algeria therefore felt more justified than others in its request for external aid and did not understand the lack of generosity of the Bank. The Algerian Government had to know whether it could rely on international finance or whether it was obliged to rely, against its wish, on bilateral financing.

7. Mr. McNamara wanted to mention three points:

(i) exactly two weeks before, the Bank had received an 11-volume report on the compensation issue; he was extremely grateful for this very abundant information, but precisely because it was so extensive, it was impossible to give immediately the Minister the answer he was seeking. We would complete the evaluation of that information as soon as possible, and would come to a conclusion that would be communicated to the Minister.

(ii) even though the analysis by the Bank of the information submitted was not completed, it was quite clear that Algeria had made a very distinct and determined effort to meet the Bank's request in the matter. Much progress had been made not only in assembling a lot of information, but also in settling a number of claims.

(iii) despite the progress made, there nevertheless remained a number of cases that the Minister had mentioned, especially in the industrial field, and progress was still needed. However, considering the Government's determination to settle all claims and assuming that this would continue in the future, Mr. McNamara informed the Minister that appraisal missions would be dispatched to Algeria by the Bank.

8. The Minister interjected that he had understood at Copenhagen that there would be no link between the Bank's work on projects and the Algerian progress on the nationalization issue. Mr. McNamara replied that there was no greater link now than there had been at Copenhagen. At Copenhagen, he had explained that the Bank could not lend to a country until that country had demonstrated it was making reasonable efforts under normal international standards towards an equitable settlement of expropriation and he had asked information to be able to judge whether it was indeed the Government's policy in practice to make reasonable efforts. This information had recently been received and was being analyzed. In the meantime, in an effort to get closer to operation, the Bank could proceed to appraise projects.

Memorandum for the Record

October 26, 1971

9. Mr. McNamara added that he had been refreshing his memory from the memorandum on the Copenhagen conversation, and he wanted to recall two points he had mentioned to the Minister at that time:

- (1) The Bank was a difficult group to deal with; our procedures were difficult, time-consuming, even at times burdensome because we wanted to make quite sure that the most efficient use of capital to be placed at the disposal of the borrower was assured. After all, we were not the ones expected to meet the principal payments and it was in the interest of the borrower to make quite sure that the use of a loan was maximized. Mr. McNamara wanted to repeat that point because it was especially important in the framework of the new relationship that each party start with a realistic view of the other one.
- (2) Mr. McNamara wanted to repeat that he would have failed in his role as President of the World Bank if he did not succeed in working out an arrangement with Algeria, which would make lending possible. He was careful to point out that this was not a promise of a loan, but it was a firm undertaking to move towards a loan when possible, and he was not in the habit of failing to reach the goal he had set to himself.

10. Mr. Mahroug thanked Mr. McNamara and hoped that the vigor which was prevalent in the first six months of the relationship between Algeria and the Bank after Copenhagen would be renewed, and that he could hope for a maximum number of missions to undertake the evaluation of three or four projects.

11. The Minister also wanted to know whether Algeria was really excluded definitely from IDA credits; the national income per head in Algeria was not higher than that of Morocco which had received substantial IDA credits and it was important for the Algerian Government to know whether it could hope to receive IDA funds to determine the total volume of its external borrowing. The Minister felt that this question might have been decided too hastily in the past.

12. In the present circumstances, Mr. McNamara did not see how it would be possible to grant IDA credits to Algeria; IDA funds were extremely limited and very difficult to obtain. Further, these funds were severely limited in relation to the needs of a number of countries like India and Indonesia, and this compelled us to a very strict rationing. This rationing was based mostly on two principles:

- (i) income per head must be low, normally less than \$300.- per head;
- (ii) even if the national income was low, a country would receive no IDA credits unless its balance of payments prospects showed that its debt service was going to be extremely difficult.

While Algeria might very well qualify under the first criterion, it did not under the second, essentially because of its substantial oil revenues.

Memorandum for the Record

October 26, 1971

13. The Minister interjected that although oil revenues were a factor in Algeria, it was the country's austerity policy which allowed an improvement of the balance of payments. For example, Algeria had stopped importing cars, while Morocco still did. This was the factor that should be weighed. Mr. McNamara did not want to come to the defense of Morocco, but to compare Algeria to a country say like India with 550 million inhabitants. India last year received \$243 million in IDA credits and no Bank loans because India was not capable of servicing aid on non-concessional terms. Thus, IDA credits to India represented less than 50 cents per person, while India obviously needed much more and deserved much more. It was this comparison between countries like India and Algeria which led to a frankly negative answer to Mr. Mahroug's question.

14. Asking permission to turn to another subject, Mr. McNamara suggested smilingly that Algeria should not try to destroy the Bank before it could serve its purpose, and read a recent news report on an article in the Algerian newspaper "La République" entitled "Faut-il détruire la BIRD?" (Must IBRD be destroyed?). Mr. Mahroug replied he did not inspire the article, nor had the Government; this was an article from a journalist who was seeing the Bank from afar. Looking at Bank reports, he must have seen that the Bank had never made any loans to Algeria. In fact, there was no denying that many Algerian citizens had a certain impression that Algeria was not liked by the Bank. While Mr. Mahroug did not want to defend the article, he wanted to stress again the considerable development efforts made by Algeria, which were recognized by France, the United States, and the U.S.S.R., but apparently not by the World Bank.

15. Mr. McNamara said that the reason he had mentioned the article was not that it bothered him - it did not - but that this illustrated his point that the new relationship between the two parties would be difficult. He was aware of the adverse opinion many people in Algeria had of the Bank. He was aware that the Bank was often considered as a tool of U.S. imperialism or of the French. The Minister and Mr. McNamara knew that these ideas were wrong, but they existed, and it would take quite a while to dissipate them. This situation did not bother Mr. McNamara in the least. We were trying to improve the relationship, and with understanding on the two parts, we would. It was not the first time this had happened in the history of the Bank: a few weeks ago, Irak, with whom we had had some difficulty, signed a telecommunication loan with the Bank, and Syria would probably negotiate a loan with the Bank in the next few months; these difficulties must be and would be overcome.

16. Mr. Mahroug thanked Mr. McNamara and expressed hope that operations would accelerate greatly, and that next year in Washington, he would be capable to review these operations with satisfaction with Mr. McNamara

cc: Mr. Benjenk (cleared with)

cc: Messrs. McNamara (2), Knapp, Broches, Shoaib, Diamond, Chadenet  
Division "C"

7.

## OFFICE MEMORANDUM

TO: Memorandum for the Record

DATE: November 30, 1972

FROM: R.H. Springuel *RHS*SUBJECT: Annual Meeting - Algeria - Visit of H.E. Smail Mahroug

1. On September 25, 1972, H.E. Smail Mahroug, the Algerian Minister of Finance, visited Mr. McNamara. He was accompanied by Messrs. Djazairi, Zerouta, Mostefai, Lounès, Bousselham, and Belghoula. Also present for the Bank were Messrs. Knapp, Benjenk, and Springuel.

2. Mr. Mahroug was happy to note progress in the relationship between the Bank and Algeria, and particularly on the prospects of a first loan in the spring of 1973. Mr. Mahroug remarked that the Bank will again have the opportunity of reviewing the Algerian economy at the end of the year and that it would witness that the balance of payments and exchange reserves were satisfactory despite a very great effort in investment. This was due to a vigorous austerity effort and to widening access to international credit, particularly to financial credit and loans not linked to specific sources of supply.

3. Mr. Mahroug added that he should also mention the subject of nationalization. The Algerian Government felt that the efforts made so far were more than reasonable, that only one dispute remained - that with France - and that even in the relationship with France, the oil dispute, the most difficult one, had been settled. Among the matters which remained to be settled, perhaps not more than a dozen were really worth considering.

4. The Algerian Government had suggested to the French Ministry of Finance that a comprehensive approach be considered and had asked the Ministry whether it would be prepared to serve as an intermediary between Algeria and French claimants. The French reaction had been that they did not want to get involved in disputes between private interests and the Algerian Government. Algeria had also tried direct discussions with the interested parties, both on an individual basis and with GENAPI, but the latter one had been disappointing. Nevertheless, such contacts were continuing. Mr. Mahroug also suggested that the judgment on whether Algeria was making reasonable efforts should be left to the Bank's Executive Directors who should be given an opportunity to take that decision without prejudgment by the Bank's Management.

5. Mr. McNamara also noted with pleasure the progress made in the relationship and assuming that the highway appraisal mission did not encounter special difficulties, a project in the spring could be financed.

6. Compensation for nationalized properties remained a difficult subject and the Bank must reach an independent opinion. In reaching its opinion, the Bank should of course take into account interested government

*President has seen*

Memorandum for the Record

November 30, 1972

opinion, but had to reserve judgment to itself. According to the Articles of Agreement, projects had to be presented with a recommendation of the President to the Executive Directors. Mr. McNamara had therefore to decide what his recommendation would be. Such a recommendation would not necessarily be unanimously accepted and Mr. McNamara cited a recent loan to Iraq which was being presented immediately after the nationalization of IPC and which was opposed by one Government; nevertheless the Bank did go ahead. He emphasized that the Bank must act independently of pressure, judging whether the behavior of the nationalizing country is in conformity with traditional standards of behavior among nations. In the particular case of Algeria, he wondered whether the differences between the Algerian and the French versions of the compensation issue could be reconciled.

7. Turning toward specific projects, Mr. McNamara noted that preparations of the road and education projects were progressing, but that the cement project was advancing more slowly. He hoped that it would improve in the months ahead, and that it might become possible to progressively build up a pipeline of projects, enabling the Bank to have a continuing action and not a sporadic one. Mr. Mahroug agreed that the cement project was progressing less satisfactorily than others. He thought that this was due to the difficulty of reconciling the internal requirements of Algeria and those of the Bank. The cement project had been included in the plan and had to be executed at the planned time. If the requirements of the Bank interfered with this internal schedule, it created a problem. In the future this difficulty might be alleviated because the Bank could be involved in projects at an early stage of preparation. In this respect, Mr. Mahroug was placing great hopes on the forthcoming economic mission which could start discussing individual projects as they were coming up.

8. Reverting to the nationalization issue, Mr. Mahroug thanked Mr. McNamara for his obviously good intentions vis-a-vis Algeria. The Algerian Government could not accept that this question remain as a sword of Damocles hanging over its international relations much longer, and could not accept the climate of intoxication which had festered for many years. The relationship with France at the present time was changing and a new equilibrium was being sought. Algeria was now more independent vis-a-vis France than it was before, although France continues to provide considerable technical assistance and that the economic relationship remained substantial. French financing both of the public and private sectors was also important. In these circumstances the nationalization issue would probably be disappearing fairly soon.

9. Mr. McNamara thanked the Minister of his visit and suggested that in view of the differing reports we were hearing from the French on the issues, further talks with himself and Mr. Benjenk during the Meeting would be useful.



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December 6 1972

MEMORANDUM FOR THE RECORDALGERIA : Mr. McNamara's conversation with Mr. Khelif

Mr. McNamara and Mr. Benjenk had lunch with the Algerian Executive Director, Mr. Khelif, on Thursday November 30. During the lunch the question of the Bank's relations with Algeria was discussed and, in particular, the matters relating to the lack of compensation on the part of Algeria for nationalized French properties.

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Mr. Khelif explained that there were mixed feelings in Algeria regarding this matter. On the one hand, everyone realized the importance of this issue as it affected the Bank's willingness to lend to Algeria but, on the other hand, it was felt that this was an extremely complex matter with political overtones and with special factors involved which all concerned needed to take into account. The Algerian authorities felt that the best solution to the problem would be a bilateral agreement between Algeria and France at the governmental level. This did not seem possible in the short run, because of the impending French election. In the medium run a visit by the Algerian Foreign Minister to Paris was under serious consideration and this might make it possible for a break-through to be achieved, since this would be the first such visit between the two countries. However, such a development was unlikely before spring and therefore did not seem to match the timetable for the Board presentation of the Bank's appraised projects which could take place any time after April.

Pending this kind of bilateral and political settlement a case-by-case solution of the various claims was quite acceptable to Algeria, but it should be borne in mind that most of the industrial properties nationalized were obsolete and worth very little and belonged to enterprises which had fostered investments during the colonial period; this type of investment became completely unviable when the economic integration of France and Algeria was dissolved. The real value of these properties was therefore very low, but this realistic approach was unpalatable to the French claimants who valued them in their former context. Moreover, most of these industries had been financed almost entirely out of French government funds coming from the Marshall Plan and the Constantine Plan and therefore constituted an appropriate matter for governments to discuss rather than just an issue of private conversation.

In general, the Algerian Government felt that it had followed the advice of the Bank in the last two or three years and had settled almost all the non-French compensation claims, but also many French claims, including the oil companies and the banks. The remaining cases could not be viewed in isolation but had to be considered together with some Algerian claims concerning the Evian Peace Agreement between Algeria and France, such as, for example, the fact that France had never paid the agreed rent for the military bases which Algeria granted it after independence.

Mr. Khelif undertook to keep Mr. McNamara and Mr. Benjenk informed of any developments of these matters in future.



M.P. Benjenk

President has seen

cc: Mr. Knapp Mr. Hartwich  
Mr. Broches Mr. Springuel



## OFFICE MEMORANDUM

TO: MEMORANDUM FOR THE FILES

FROM: M.P. Benjenk *MB*

SUBJECT: ALGERIA: Compensation for French Properties

DATE: January 25 1973

DECLASSIFIED

~~CONFIDENTIAL~~  
NOV 28 2012

WBG ARCHIVES

Mr. Khelif, Executive Director for Algeria, called upon Mr. McNamara on Wednesday January 24. Mr. Benjenk was present.

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Mr. Khelif informed Mr. McNamara that he would shortly be travelling to three North African countries, Algeria, Morocco and Tunisia, and possibly to a fourth, Libya, depending on certain circumstances. He considered the timing of his visit to Algeria and Tunisia appropriate because both these countries were in the final stages of preparation of new Plans and because the participation of the Bank in the financing of these Plans was an important consideration for both countries. He was going to visit Morocco to meet the new Ministers of the recently appointed Moroccan Government. Mr. Khelif said he was not making any definite plans about Libya although that country was exhibiting some interest in the affairs of the World Bank, and said that it was necessary to be "prudent" in making any arrangements concerning Libya.

The ensuing conversation centered mainly on Algeria and the compensation dispute with French claimants regarding nationalized properties. Mr. Khelif wanted to inform the Algerian authorities of his impression of the Bank's position on this dispute and also of the Bank's intentions with regard to the financing of projects in Algeria. The timing of such financing was naturally an important factor in the work going into the new Algerian Plan. Mr. Khelif said that it was his impression that there was still a "mortgage" over Algeria's relations with the Bank, namely the Bank's position on the matter of compensation. He would do his utmost to help remove this obstacle to relations and, to achieve this, he had had numerous conversations with the Vice Presidents of the Bank so that he could get a clear impression of the Bank's position. This was necessary if he was to try and remove some of the tenseness and the psychological climate prevailing in Algiers on this question. He wanted now to hear Mr. McNamara's views on this matter. His own impression was that there were two ways of looking at the question: the first was that the dispute between Algeria and France should be treated as a bilateral matter, with the Bank deciding that it was of no concern to it. The second way was that the Bank would decide that it was concerned with the matter and therefore had to form its own opinion on it. Mr. Khelif assumed that the Bank was following the second road and he therefore asked Mr. McNamara to state his view on the matter.

Mr. McNamara replied that Mr. Khelif was right in assuming that the Bank was concerned with the question and could not consider it as a purely bilateral matter. The Bank's Board would not approve of such an attitude. This being said, Mr. McNamara felt that the Algerian Government had made substantial progress in the settlement of most, if not all, outstanding claims since 1970.

Nevertheless, there was one issue still outstanding, which caused Mr. McNamara some surprise, particularly since the Algerian Government did not dispute the facts relating thereto. He could not understand why the Algerian Government had not made a response to the French request to have Algeria discuss these

President has seen

January 25 1973

claims with GENAPI, an organization of French claimants, which had been set up in accordance with the principle laid down by Algeria that global negotiations were to be desired. The fact that there had been no Algerian response to it would cause difficulty if a loan to Algeria were brought to the Bank's Board. He would therefore urge the Algerian authorities to make a response. Having said this, Mr. McNamara added that he was most anxious for the Bank to begin lending to Algeria and that the need for a response, which he had stressed, did not mean that he was stating any views as to what would constitute an appropriate settlement of the dispute. On the assumption that there would be a response, Mr. McNamara said that he would see to it that the Bank continued processing the Algerian project under consideration, with a view to presenting it to the Executive Directors in some weeks' time. He asked Mr. Khelif whether the view which he had just expressed coincided with that of the Vice Presidents' of the Bank whom Mr. Khelif had seen in the last few days. Mr. Khelif replied that there had been times in recent days when he had felt despondent about the outcome and had feared that one might be going around in circles. But he was most encouraged by Mr. McNamara's statement and he thought this would help considerably to advance matters, although he could not commit the Government to any line of action at this time. He was now familiar with the facts and the framework in which the Bank operated and he would try to help as much as possible to move matters forward. In his conversations with Mr. Broches, which were of a jurisprudential character, two possibilities of forward movement had been envisaged. One was that the Algerian Government response might consist of a request for intergovernmental discussions on the outstanding dispute and the second, that the Algerian Government might accept to start discussions with GENAPI, but with some kind of French Government guarantee attached to these discussions. Did Mr. McNamara agree that such response on the part of Algeria would constitute the move forward which would help matters? Mr. McNamara replied in the affirmative.

Mr. Khelif then asked Mr. McNamara what he thought of the gas project in Algeria and the port attached thereto. Mr. McNamara responded that it would not be advisable for the Bank to be involved in the gas project for two reasons: first the compensation dispute might delay matters and it would not be right for the gas project to be delayed in any way. Secondly, he felt that the Bank was a lender of last resort and other funds could surely be found for the gas project.

With regard to the port, the Bank's view would depend on whether this was a port purely for the gas project or whether it could serve other purposes as well. He asked Mr. Benjenk to respond to this question. Mr. Benjenk informed Mr. Khelif that discussions on the port were continuing, but had been slowed down by a recent government decision to move the location of the port.

cc: Mr. Knapp  
Mr. Broches  
Mr. Hartwich

January 25 1973

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cc: Mr. Knapp  
Mr. Broches  
Mr. Hartwich



## OFFICE MEMORANDUM

TO: Memorandum for the Record

DATE: April 11, 1973

FROM: R.H. Springuel *RHS*SUBJECT: Algeria - Visit of the Finance Minister

On March 26, 1973, the Algerian Minister of Finance, Mr. Small Mahroug, accompanied by Messrs. Yahia Khelif, Executive Director, and Mr. Abdelkader Bouselham, Minister Plenipotentiary, Chief of the Algerian Interests Section, met with Mr. McNamara. Messrs. Knapp, Benjenk, Hartwich, and Springuel were also present.

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Mr. Mahroug said his visit to the Bank came at an opportune time. First, an economic mission had recently visited Algeria and was preparing its report. Secondly, the efforts of the Algerian administration on the question of compensation for nationalized properties had progressed significantly, and thirdly, Mr. Mahroug felt it was important for him to get an idea of the Bank's possible role in the next Plan.

Mr. McNamara was happy to hear that the nationalization issue was making good progress. He had noted with interest the letter of February 24, 1973 from the Government to GENAP and GENAPI's answer of March 12, from which he drew the conclusion that negotiations with GENAPI were about to start.

Turning to projects for Bank financing, Mr. McNamara said he would be pleased now to go forward with two loans, one for highways and one for education. The Minister thanked Mr. McNamara for this encouraging indication, and said he now wanted to draw particular attention to the Trans-Saharan highway. The Algerian Government has built the highway as far as In Salam and the road would soon be inaugurated by the President himself and three other Chiefs of State (Mauritania, Mali, and Niger). The joint inauguration would symbolize the mutual desire of the four governments to complete the highway as soon as possible. In view of the multinational character of that road, the Minister felt that the Bank has a special role to play in it. Other multinational projects were also coming up, especially the gas export project. Algeria had reached a satisfactory agreement with Eximbank and gas export contracts had been signed with Western European countries. A number of commercial banks were participating in the financing of the project, and recently a substantial loan had been obtained in London at satisfactory terms. This loan would also be allocated to the gas export project. Even so, the terms on the various loans, though good by commercial standards, would not result in an entirely satisfactory debt profile, being more in the nature of medium-term loans. In particular, they implied a difficult debt servicing period in the late seventies and the eighties, for which period the Minister requested Bank help. The Minister wanted to emphasize, however, that Algeria had no foreign exchange problem in the immediate future as testified by the subscription to the recent Bank bond issue, but he felt that the long-term profile should be improved.

President has seen



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Mr. McNamara asked the Minister whether he wanted the Bank to invest in projects specifically related to the gas export project. The Minister avoided a direct answer, referring to infrastructural projects such as ports and railroads. He also mentioned the need to develop agriculture. Algeria was at present engaged in substantial efforts to transform living conditions in the countryside, and thus the fundamental inequity in Algerian society. In this they would be looking for Bank help.

The Minister added that he felt that the Development Plan would include numerous projects in need of financing and taking into account the long processing time for Bank projects, he considered the time to be ripe to initiate a maximum number of projects. Mr. McNamara answered that once the Bank starts lending in Algeria, it would undoubtedly find many appropriate projects. The major step was the first one, however, and once the two loans he had mentioned were made, other projects would be developed on the basis of the findings of the economic mission as well as the Plan, assuming of course further progress in the compensation issue.

The Minister thanked Mr. McNamara, adding that the settlement of the compensation issue was a question of administrative progress which he hoped could be done quickly and be the starting point of important and close cooperation between Algeria and the Bank.

Mr. Knapp remarked that he was pleased to see the deadlock in the relationship between the Bank and Algeria being resolved, and the Bank proceeding with the first loans as planned. He felt certain, however, that some of the Executive Directors would be asking the Bank about the exact position reached in the compensation question, and thus wanted some idea as to how the Government was planning to proceed. The Minister answered that the main issue was to obtain the French assurances requested by Algeria. The technical discussions with GENAPI would not be complicated, and an agreement should be reached easily on the amount. He added that he felt that the French interlocutors were taking a much more constructive attitude than in the past. In his view, there would not be negotiations with a formal starting and closing date, but essentially a continuation of contacts already maintained.

Mr. McNamara replied that the letter of February 14 to GENAPI noted what the negotiations could cover and that the answer of March 12 from GENAPI indicated their readiness to begin when the Algerian Government wanted. This clearly implied a specific start of negotiations. Mr. Knapp added that it was very important to know whether there were any precondition for negotiations. Hearing the word precondition, Mr. Mahroug, without waiting for the translation of Mr. Knapp's remark, stressed that the assurances expected from the French Government would be the outcome of the negotiations and did not imply in any way a precondition or a "prealable". He said that negotiations have never stopped, that contacts have never been lost and that there would now be increased activity. Furthermore, possible contacts on a ministerial level over the next few months might speed things up even further.

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He was not, however, prepared to give particular details, but repeated that contacts have never been lost and would be more frequent now. In conclusion, he said that in his view, in the field of compensation, the most difficult had been done and that the question should no longer be an obstacle.

cc: Mr. McNamara (original + 1 copy)  
Mr. Knapp  
Mr. Benjenk  
Mr. Hartwich  
Mr. Delaume  
Mr. Sella



## OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara

DATE: June 19, 1973

FROM: D. Hartwick

SUBJECT: ALGERIA - Visit by Mr. Aoufi on June 19

6/19

1. Mr. Aoufi, Secretary General of the Algerian Ministry of Finance, will see you this afternoon at 6 P.M. He is in Washington for the signing of the two Algerian loans (Education - \$6 million and Highways - \$18.5 million) and for discussions on future operations. For his meeting with you he will be accompanied by Mr. Hassan, Director of Treasury, Mr. Khelif, Executive Director of the Bank for Algeria, and Mr. Bouselham, Minister Plenipotentiary, Chief of the Algerian Interest Section in Washington.

2. I expect that Mr. Aoufi will raise with you the following matters (most of these have been referred to already in my memorandum of June 4, 1973 to Mr. Benjenk on my recent visit to Algeria of which you received a copy; a further copy is attached for ease of reference):

(a) He will extend an invitation to you from Mr. Mahroug, the Minister of Finance, to visit Algeria. I believe that you should plan on visiting Algeria at a rather early date. It is an interesting country from the developmental point of view and enjoys some kind of leadership role among a number of developing countries. However, you ought to be somewhat cautious about the timing. I do not think that you should go very soon, partly because of French sensitivities, but partly also because it would be advisable to have our program there on a firmer basis which essentially requires further efforts regarding the compensation issue. A good time might be shortly after we have presented our next group of Algerian projects to the Board, which is likely to be in the first quarter of calendar 1974. I would therefore suggest that you accept the invitation but leave the timing open; we should be able to make more precise suggestions in Nairobi when you will see Mr. Mahroug.

(b) Mr. Aoufi is likely to transmit formally the proposal for the establishment in Algiers of a Bank regional office (attached - number 2 - is a translation of an informal note on this subject handed to Mr. Springuel by Mr. Chabane, Technical Adviser to the Minister of Finance, during the former's recent visit to Algeria). The attachment shows that with their proposal, the Algerians pursue also objectives which go beyond pure Bank/Algerian relations. I believe it is too early to talk about such an idea and we clearly should not rush into it. A regional office for the North African countries may make sense in the longer run; however, it requires a simultaneous request by the other countries concerned, and we have some indirect indications that not all of them might welcome the idea. For the support of our Algerian operations itself, an office also does not seem indicated at this stage; we do not have the same kind of problems as we have with a number of much less developed countries, and the Algerian

administration itself is fairly efficient. The reference in the attached note to the association of a regional office to gas export schemes is very unclear, and I am sure we will want to stay out of this, at least for the time being. I would therefore suggest that we take the line that this is an idea which one might consider further as the relationship develops and the need proves itself, but that at the moment there are other countries which need this kind of special effort more urgently. (I should add that Mr. Benjenk fully agrees with this position.)

(c) The current situation of discussions on the compensation for nationalized firms is another issue on which Mr. Aoufi may briefly want to report on. I attach a summary of the present position (attachment 3 ). I suggest that you express your expectation that the talks with GENAPI will soon continue and that the Algerians would also deal with the remaining Belgian and Dutch claims (you might want to make a brief reference to the respective remarks made at the Board meeting last Thursday).

(d) The question of Bank participation in financing of gas export schemes may also be raised. This was discussed at the CPN review on April 27 and you will probably want to take the same position (although I would hope that, internally, we might give some further thought to the pros and cons in due course).

(e) Finally, Mr. Aoufi may ask about the level of Bank lending to Algeria in the coming years and he might express the expectation that it will be at about the level of our lending to Yugoslavia (which is roughly at \$100 million annually on an increasing trend). You might want to reply that the important thing at this stage is to build up a pipeline of projects; this work is fairly well underway (see attachment 4). In the longer run, it would seem that lending on the level contemplated for Yugoslavia might be appropriate. This level would also be in an appropriate relationship with our lending to Iran, which is a useful comparison for a number of reasons.

cc: Messrs. Knapp  
Votaw

## OFFICE MEMORANDUM

ATTACHMENT I

TO: Mr. M. P. Benjenk, Vice President, EMENA

FROM: Dieter Hartwich, Director, CPDII, EMENA

SUBJECT: Visit to Algeria

"CONFIDENTIAL"  
DECLASSIFIED  
DATE: June 4, 1973  
NOV 28 2012  
WBG ARCHIVES

1. I visited Algeria from May 18 to 23 accompanied by Mr. Springuel. The main purpose was to get acquainted with the country at the time when the Bank is getting into the position to commence lending operations. The following reports some principal impressions and conclusions.

2. First a word on the attitude towards the Bank Group. There is a marked difference in this regard among Algerian officials. This reflects to some extent the different intensity (or lack) of exposure to the Bank they have had so far; it also reflects, however, the attempt to use relations with the Bank Group to help their own internal position. For example, it seems quite evident that the Ministry of Finance, starting with the Minister and continuing with the Secretary General and others, are using the prospect of closer Bank relations as a means to strengthen their position. The Presidency seems to be somewhere in the middle and to wait whether the Bank will in fact begin to deliver. At the other end of the spectrum, for example, would be the Minister of Industry and the Secretary of State for Hydraulics who are extremely skeptical and doubt whether the Bank will want to work in Algeria and whether close cooperation would at all be possible. One might summarize the general position of the Algerians as awaiting proof by the Bank that it is really willing to enter into active relations. Most Algerians seem willing to try and have this relationship but clearly not at any cost.

#### Forthcoming Two Loans

3. Since the loans for Highways and Education which were negotiated in April play an important role in the relationship, a brief word about their status. As to the operations as such, we were informed that the Government had agreed to the documents as negotiated in Washington. (They are being distributed to the Board today, June 4). On the question of compensation for the nationalized industrial properties, the discussions between the French group GENAPI and the Algerians had started a few days before my visit with two days of preliminary talks. I heard from the Paris Office before leaving Tunis for Algeria that the returning French delegation had on the whole been encouraged by the preliminary talks. The Finance Minister and his Secretary General as well as the Minister of Industry, who has primary responsibility for the compensation discussions, confirmed substantially the account of the meetings given by GENAPI to Mr. Carriere. The next meeting will probably take place around the middle of June. I shall prepare a separate memorandum on a few points regarding the compensation discussion. It seems to me that the finding of reasonable efforts can be made for the time being. The third item required for presenting the two loans to the Board is the report of the economic mission which visited Algeria in November/December. The draft of this report was discussed by Mr. Maubouche and Mr. de Leede during and for two days after my stay in Algeria. On the whole, the report was commented on favourably; some people even felt privately that it could have been more

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critical in a number of respects. A number of comments were made particularly regarding the analysis of the external debt and the chapter on agriculture. However, the comments seemed to be mostly less of substantive and more of psychological and tactical character. It is evident that the economic report is being taken very seriously by the Algerian authorities, partly because of its evaluation of their efforts and achievements and partly because they are aware, perhaps to an exaggerated extent, that the report will present Algeria to an important group of interested readers. They stated that, if their major comments were taken into account (which we have been able to do without any difficulty), the Bank would be free to circulate the report also to interested outside parties, primarily banks.

#### General Impressions

4. It might be useful to summarize some general impressions before commenting on the character which the future relationship might take and on the operational contents of our program. I stayed two and one half days in Algiers visiting the Ministers of Finance and Industry, the Secretaries of State for Hydraulics and for Planning, the Secretaries General of the Ministries for Finance and Agriculture and Agrarian Reform and the Presidents of various banks, particularly Banque Algerienne pour le Developpement and Banque Nationale d'Algerie which is the only bank authorized to deal with agriculture. I also paid a visit to the UNDP Resident Representative. During the rest of my stay I visited some areas around Algiers, spent one day visiting the Kabylie Region and another day at Oran, visiting the oil port and industrial center of Arzew and Mostaganem, where one of the institutes of the proposed education project is located. One sees much evidence of progress wherever one goes: new plants, housing developments, schools, etc. Impressive was in most places the enthusiasm with which people reported about their work. As is to be expected in a country which has suffered heavily during the long independence war, many of the responsible people one meets are young.

5. The visit to Kabylie provided a brief insight into one of the regional programs which the Government is carrying out. Kabylie is one of the least developed provinces and four years ago, a special program was started to catch up with the remainder of the country. Signs of this are ample. We visited in particular a number of agricultural research and demonstration centers and a teachers training institute and had an interesting discussion with the Governor of the Province. Kabylie is one of the regions which lives primarily from traditional agriculture, and efforts are therefore being made to upgrade the income earning possibilities for farmers by introducing new strains of livestock, trees, etc., spreading the traditional handicrafts and bringing industry and to some extent tourism to the area.

6. The visit to Oran showed an area which seems to have strong regional tendencies of its own (with constant stress on the need for decentralization) and where private initiative seems to be rather lively. Arzew was impressive as an oil port with a number of important industrial installations; it is in a sense the birthplace of Algeria's modern development since the first oil shipments were made from there. The visit to Mostaganem showed the Bank-financed agricultural technician center as an extremely interesting, highly motivated and forward-looking effort.

7. One should not generalize after such a short visit but it seems to me that perhaps together with Iran, Algeria is the only oil country in the Middle East which has the capacity to make use of its revenues and has a financing gap in addition. Impressive achievements are evident in many places and there is a justified pride in this. There are also signs of some misallocation of resources which perhaps arises primarily from the effort to press ahead with development as quickly as possible, to use the latest technical methods sometimes irrespective of cost and realistic need, and from the desire to become economically independent to an increasing extent and practically at any cost. However, the Algerians seem to feel that given their revenues from oil and natural gas exports, they can afford to follow such strategy.

8. I would briefly like to single out a few matters which struck me as particularly interesting or typical. The first is the so called Agrarian Revolution which has been underway since about one year. This is not only an attempt at increasing agricultural production; it goes much further and aims at a transformation of the rural sector to let the rural population participate in economic progress and thereby keep them in the countryside, thus reducing urban migration. It is a program which comprises all aspects of rural life; it aims at setting up alongside the government-owned large holdings which were taken over from the French settlers and alongside the private holdings of mostly small size, a new type of production unit which is cooperatively owned and farmed and which is serviced to some extent by specially created service cooperatives. The Agrarian Revolution is only in its beginning, and it was evident from discussions that many facets have not yet been thought through and that much work and much thought has to be given to it if failures are to be avoided. However, the Government seems to be aware on the one hand of the risks of the undertaking and on the other hand of its importance for the overall economic progress of the country. It is something which the Bank Group might well want to watch closely although I believe that at this early stage and particularly given the present lack of a consistently and coherently thought out system, the Government not might yet wish us to get operationally directly involved.

9. Another example which to some extent is characteristic was provided by the Ministry of Hydraulics. The Secretary of State heading it had been cool towards past Bank missions and I was also met initially with a very reluctant reception. However, the discussion warmed up when we came to talk about what seems to be one of his main objectives, i.e. to create in Algeria the full capacity for preparing and executing projects without having to use foreign expertise. This case seemed typical in two respects: firstly, in the desire to carry out all phases of development, including economic and technical preparation of programs and projects, in the country itself and therefore to obtain the maximum training component in each project and from each aid-giving agency; and secondly, in the almost religious respect paid to the latest technical processes and equipment, to some extent irrespective of whether they are needed in such an advanced form and in the capacity installed.



10. Another matter worth mentioning is the position taken by the Minister of Industry, Mr. Abdesselam. He is an impressive personality who can point to a remarkable record of achievement in building up the industrial base of the country and the export potential from oil and natural gas. However, he was very clear in stating that in his view he could not have done this following the Bank's methods of detailed evaluation of all aspects of a project, including economic and financial, and following procedures of international competitive bidding which he considers cumbersome and not suited in most cases to complex industrial projects. We concluded the discussion by agreeing that while the Bank was ready to assist in the industrial field, it was under the circumstances better to leave it up to the Government to decide when the time had come to ask us to consider industrial projects.

#### Future Relationship

11. There seem to be several considerations out of which the Algerian authorities are interested in the Bank getting active. Very strong appears to be, at least at this stage, a need for acceptance, almost an urge to obtain from the Bank a seal of good housekeeping as approval for past achievements. A second major motive is the need to obtain increasing amounts of external finance. The Algerian authorities have an almost exaggerated view of the importance which external private and public lending institutions attribute to the Bank's economic report; therefore, they regard the report as a useful aid in their attempts to obtain external loans. A third point, closely linked to the second, is the realization that the terms of Bank lending are more favourable than those of most other sources available to Algeria, and therefore can ease the external debt service burden which is bound to rise sharply during the implementation of the ambitious investment plans over the next few years. Although the Bank's contribution will be limited in relation to Algeria's financing needs, it can be directed particularly to sectors for which external financing is otherwise not easily available. A fourth point is the interest in the transfer of know how connected with Bank projects, particularly in training in practically all forms and at practically all levels and in advice to improve organizational structures, policies and the system of organizing economic activity. The latter point is probably so far limited to the Ministry of Finance and a few other authorities but it is my impression that once we have demonstrated what kind of contribution we can make, it will spread quickly to other parts of the administration.

12. A clear expression of the expectation put into Bank activity in Algeria was formulated by the Finance Minister.

(a) He believes that the fact of Bank lending as such and the assessment given in the economic report will increase Algeria's credit standing.

(b) He looks forward to a period of close cooperation ("a new page has been turned") and hopes that the Bank can make a contribution to easing the external debt burden, both through the terms of its own lending and the example this could set for other lenders. Efforts should now be made to build up a pipeline of projects, initially particularly in infrastructure and education but in the longer run also in agriculture and industry. He emphasised also joint regional projects with the other Maghreb countries and the other border states of the Sahara.

(c) He asked me to convey informally an invitation to Mr. McNamara to visit Algeria at an early date, hopefully already around the time of the Nairobi meeting.

(d) He also asked to convey informally his proposal for establishing in Algiers a regional office which would help prepare projects in Algeria and other countries in the area, pay particular attention to regional schemes and also play perhaps some role in relation to gas export schemes with European countries (but he was rather vague on the latter subject).

(e) He asked for some IDA financing. He pointed to the need for easy terms for agriculture and infrastructure projects but the main reason appears to be to obtain in this way some form of acknowledgement of Algeria's own efforts at raising resources and using them well.

13. It was noticeable that in making these proposals, the Minister had also their political effects in mind. We had some discussion on the various points and concluded that this be best continued (and the proposals under (c) and (d) conveyed formally) during the visit which the Secretary General of the Ministry of Finance plans to make to Washington in the week starting June 18 to sign the two forthcoming loans. A full briefing with recommendations will then be prepared.

#### Operational Matters

14. The discussions on operational matters will be reported in detail separately; I summarize briefly below.

(a) It appears that we should be in a position to prepare rather expeditiously projects for highways, railways and ports as well as energy. Particular emphasis was given to continuing our involvement in education and in training generally as part of projects in most sectors. This emphasis and the comprehensive way in which it is approached could well be a particularly interesting facet of operations in Algeria. It could provide an opportunity for us to assist in developing some rather innovative forms of training which can also be of wider application. I should add that the Minister of Industry supports programs in infrastructure and education which he feels are increasingly becoming bottlenecks for industrial development.

(b) Agriculture, and in a broader sense rural development, play an increasing role in the Government's thinking but it will not be easy for us to find the right approach to activities in this sector. Agricultural education (already part of the first education project) and research seem most promising for initial operations. Irrigation, including on-farm development, might also be of priority but here we are dealing with a Ministry in which psychological and procedural obstacles have to be overcome first. Re-forestation

was mentioned as an activity for which the President of Algeria himself had suggested Bank involvement. A general difficulty in agriculture will be that whenever credit is involved, we will run into a problem with interest rates. These are in the Algerian economic system regarded as of secondary importance for resource allocation which is supposed to be decided upon by the Plan. Interest rates normally decrease with the duration of a loan to take account of longer project gestation periods and the absence of equity capital. We agreed with the different Ministries concerned that as a first step for preparing Bank involvement in agriculture we would plan to send in the Autumn a mission of 3 or 4 people who would take a broad look at various sub-sectors (including also research, training and rural development) and try to identify the more promising fields for lending. I should add that the Algerians are interested in participating in the regional livestock sub-sector study which we have in mind.

(c) In industry I see little prospect for early Bank activity given the generally skeptical attitude of the Minister. The Finance Ministry is more optimistic and believes that once Bank lending to Algeria has commenced, the Minister of Industry might soon change his attitude but I am not as sanguine. Although at the urging of the Finance Ministry we should not at this time drop the cement project scheduled for FY1975, we should not devote staff time to it unless we have assurances that an acceptable project may materialize. I would rather expect that as the relationship becomes closer, one or two projects are likely to come up which we could use as test cases. We should, however, in the meantime investigate the possibilities of cooperating with the Banque Algerienne pour le Developpement whose director expressed interest both in training of some of its staff and in financing. A line of credit approach, following our usual DFC pattern, does not seem suitable in the short run because of the institutional differences to our usual DFC borrowers and the interest rate problem. One might rather think initially of developing the kind of operation which we have had with the Yugoslav Investment Bank, i.e. to group a limited number of pre-selected and pre-appraised projects together in one lending operation. I believe that we should not miss this chance of gradually getting into the industrial sector. The interest rate would not pose a problem in this case since Algerian enterprises have to bear the full cost of external loans obtained for them directly.

#### Political and Economic Situation

15. I can mention only a few impressions which stand out. In a number of respects I was reminded of parallels with Yugoslavia. For example, the role played by participants in the war of independence and the cohesion which their jointly shared experience ten to fifteen years ago brings with it, is such a parallel. It seems, on the other hand, that the party plays a much more limited role in Algeria, and this also means that the political and social system is ideologically much less defined. I was struck by the cultural and economic orientation towards Europe which was expressed at various occasions but at

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the same time by the belief in the political role which Algeria plays among the Maghreb countries, the other border countries of the Sahara and also among developing countries generally. This sense of mission came out at a number of occasions, and it seems to be based principally on the fact that Algeria achieved its independence thru a long and bitter struggle of its own and that in the economic field, it has not only been able to build up and assert its independence but also to successfully employ the resources thereby put at its disposal.

16. The economic situation is dealt with in the Bank report coming out these days. I would like to comment only that the Algerian economy seems to be in a stage of change with regard to new systems of economic management. In the industrial field a new charter of enterprises has been issued and is about to be implemented which introduces a larger degree of self-management although not to the same extent as in Yugoslavia. However, based on a very superficial impression it seems to me to imply also some of the pitfalls which the Yugoslav system had to pass through. Another question is how the production apparatus which is getting more complex will be regulated. This raises the question of the price mechanism and other means of directing economic activity. A very basic change will of course be brought about by the agrarian revolution; as already referred to above, this experiment involves great risks and may prove costly to the economy if not directed carefully.

#### Conclusions

17. Algeria is a member country which combines a number of interesting characteristics. It has a rich resource basis; it can look back on substantial achievements over a rather short period of time and does so with a great measure of pride; it has shown a mixture of assertiveness and pragmatism in economic and political matters; and it has an interesting but not yet very clearly defined economic and social system. These characteristics make it into a country which is interesting from the point of view of economic development and is carrying out a number of experiments which we could assist and some of which might be of more general application. Algeria will be with us in any case particularly since it believes in its leading role among developing countries and therefore will influence many of our costumers - whether inside or outside the Bank. I hope we can establish a close relationship; this will not be an easy matter but also challenging and I think very rewarding.

cc to Messrs. Wapenhans, Karaosmanoglu, Asfour and Springuel

DHartwich:rpo

MEMORANDUM CONCERNING THE ESTABLISHMENT OF AN IBRD OFFICE IN ALGIERS

While the World Bank has an office in East Africa and another in Africa south of the Sahara (Abidjan), it does not have one north of the Sahara. Four arguments speak in favor of the installation of a regional office of the IBRD to cover North Africa from Morocco to Egypt and located in Algiers:

1) As relations between Algeria and the IBRD are now entering a new phase, Algeria intends to submit a substantial number of projects to this international institution for financing. In the future Algeria hopes to benefit from the same amount of lending as has been accorded by the IBRD to Yugoslavia.

2) This office will aid in the preparation of interregional projects in the area which will gradually increase in number and importance within the framework of policies of integration in the Mahgreb.

3) It will also be associated with interafrican projects of which the Trans-Sahara project is an example.

4) It will furthermore be associated with future projects for the export of gas to southern Europe by means of liquefaction and regasification as well as transportation of gas by pipelines from Algeria to Spain and Italy.

In addition, the Algerian Minister of Finance is ready to participate in the costs involved in establishing such an office.

At the next annual meeting of the IBRD which will take place in NAIROBI, Mr. MAHROUG would invite Mr. MACNAMARA to visit Algeria. The IBRD office in Algiers could be inaugurated at that time.

Algiers, May 18, 1973.

Handed to Mr. Springuel by Mr. Chabane, Technical Adviser to the Minister of Finance, during the former's recent visit to Algeria.

ALGERIA: RECENT DEVELOPMENTS ON THE NATIONALIZATION ISSUE

1. Negotiations between GENAPI, an association representing most of the French nationalized firms, and Algeria, got under way in early May with the Algerians adopting a basically cooperative attitude and showing a certain willingness to reach a settlement on an overall basis. At a meeting on May 14 between Mr. Jean Chevalier, President of GENAPI, and Mr. Lakaf, acting on behalf of the Algerian Minister of Industry and Energy, the Algerian authorities were given a dossier containing details of three separate valuations of compensation claims made by a commission of experts. They were also told that GENAPI was ready to sign an agreement without further delay, provided the Algerians would accept the mean figures between the highest and the lowest total of the evaluations given.
2. The Algerian side made no reference to this offer, but said they would study the dossier with great care. Turning instead to the question of companies not included in the GENAPI-Algeria negotiations, Mr. Lakaf said that GENAPI would be provided with a full list of these companies so as to be in a position to enquire whether any or all of these wished to associate themselves with the negotiations.
3. Another meeting between GENAPI and Algeria was scheduled for June 14 but was postponed because Mr. Lakaf was hospitalized.

Population: 14.2 mil.; 3.3% p.a.  
 Per Cap. Inc.: \$320 (1972); 4.1 p.a. 1973-80  
 Area: 2,381,741 sq. km.  
 Literacy: 25% adult pop. (1966)

ACTUAL AND PROPOSED LENDING THROUGH FY 1978

(\$ million)

FISCAL YEARS

		Through 1968	1969	1970	1971	1972	1973	1974	1975	1976	1977	1978	1979	Total 1964-68	Total 1969-73	Total 1974-78
Power	IBRD	10.0														
Pipeline	IBRD	50.0														
Gas Liquefaction	IBRD	20.5														
<b>Agriculture:</b>																
Unidentif. I	IBRD									10.0						
" II	IBRD										20.0					
" III	IBRD											20.0				
" IV	IBRD												35.0			
<b>Education:</b>							5.8									
I Tech. Institute	IBRD							25.0								
II Oran University	IBRD								30.0*							
III Secondary Educ.	IBRD										30.0					
IV Unidentified	IBRD															
V Unidentified	IBRD												20.0			
<b>Industry:</b>																
I Cement	IBRD								25.0							
II Unidentified	IBRD									20.0						
III Unidentified	IBRD											25.0				
<b>DFC:</b>																
I	IBRD									30.0						
II	IBRD											45.0				
<b>Mining:</b>																
Gara Djebilet	IBRD									30.0						
<b>Power:</b>																
I Reorg. x Mis. Eqpt.	IBRD							10.0								
II Unidentified	IBRD									30.0						
III Unidentified	IBRD											30.0				
<b>Highways:</b>							18.5									
I Improve & Studies	IBRD															
II Imprv. & Sahara I	IBRD								35.0							
III Imprv. & Sahara II	IBRD										40.0					
<b>Transport:</b>																
Unidentified	IBRD												50.0			
<b>Ports:</b>																
Arzew	IBRD							40.0								
<b>Railways:</b>																
I Urgent Eqpt.	IBRD							25.0								
II Renewal I	IBRD								25.0							
III Renewal II	IBRD										25.0					
<b>Unallocated:</b>																
I	IBRD											30.0				
II	IBRD															
III	IBRD												40.0			
<b>Operations Program</b>	IBRD	80.5					24.3	100.0	115.0	140.0	135.0	150.0	145.0		22.8	640.0
		3					2	4	4	5	5	3	4		2	23
<b>Lending Program</b>	IBRD						24.3	75.0	90.0	95.0	100.0	110.0	110.0		22.8	470.0
	No.						2	2	3	4	3	4	3		2	13
<b>African Development Bank</b>					3.0											
<b>IBRD o/s</b> <sup>1/</sup> incl. undisb.		37.6	30.7	23.8	16.7	13.2 <sup>2/</sup>	34.4	106.1	192.6	284.2	383.7	491.7	597.2	-	-	-
excl. undisb.		37.6	30.7	23.8	16.7	13.2 <sup>2/</sup>	10.1	9.9	21.5	50.7	102.9	171.6	257.7	-	-	-
<b>IBRD Gross disbursements</b>		80.5	-	-	-	-	-	3.1	15.1	32.6	52.8	70.6	90.6	20.5	-	174.2
Less: Amortization		43.0	6.8	7.0	7.1	5.0	3.1	3.3	3.5	3.4	0.5	2.0	4.5	29.1	29.0	12.7
Equals: Net disb.		37.5	-6.8	-7.0	-7.1	-5.0	-3.1	-0.2	11.6	29.2	52.3	68.6	86.1	-8.6	-29.0	161.5
Less: Interest & Charges		26.6	2.0	1.7	1.3	.8	0.6	0.8	1.7	3.6	6.8	11.3	17.1	14.1	6.4	24.2
Equals: Net transfer		10.9	-8.8	-8.7	-8.4	-5.8	-3.7	-1.0	9.9	25.6	45.5	57.3	69.0	-22.7	-35.4	137.3

\* on EMENA contingency list for FY 1975; otherwise for 1976

<sup>1/</sup> As of end of fiscal year.

<sup>2/</sup> The exchange adjustment of \$1.4 M as of June 1972, has been included in these figures.

**NOTE:**

All data in the last seven lines reflect o/s amounts and transactions of loans sold to third parties.

ALGERIA: PROJECT UNDER PREPARATIONFY 74

Education II: The project includes the construction and furnishing of the University of Science and Technology at Oran. It was initially submitted as part of a comprehensive plan also including the Technical Institutes, financed through the first loan for education. The estimated total cost of the project is \$35 million with foreign exchange costs amounting to around \$25 million. Documents relating to the project have recently been received and reviewed by the Bank but need to be supplemented during appraisal. An appraisal mission scheduled to go in the field in June may have to be postponed on the Algerian Government's request and a new date for the mission will be discussed during Mr. Aoufi's visit.

Power: Société Nationale de l'Electricité et du Gaz (SONELGAZ), the State-owned power utility has consulted the Bank on a reorganization study it wants to undertake. A project identification mission visited Algeria in May to discuss the study and possible Bank financing in the power sector. Tentatively the mission suggested a project comprising the reorganization study, dispatch and command centers throughout the network and a number of power substations. On the basis of the mission's findings a preliminary figure of \$15 million was suggested as the amount of the loan. At present an appraisal mission is scheduled for September and the necessary background material is expected to be submitted by SONELGAZ in August. A second project is expected in FY 76.

Port of Arzew: This project is closely linked to overall gas export projects in Algeria. It is expected to include the construction of breakwaters, dredging, construction of berths for liquefied natural gas exports and other supporting facilities. The project was originally identified in November 1971, but due to a sizeable increase in gas export contracts the Government decided to shift the location of liquefied natural gas loading facilities to a new location. Total project costs at the time of identification were estimated at \$55 million with a foreign exchange component of about \$28 million. New figures will only be available after the completion of a new feasibility study required by the change in the location of the port, but the amounts involved are bound to increase. The amount in the operations program is now \$40 million. A preappraisal mission is scheduled for departure in early July.

Railways: A project identification mission visited Algeria in early 1973 and identified a project consisting of essential renewals and improvements of existing lines, maintenance and workshop equipment and various consulting services, including a study to prepare a long-term investment plan. The amount of the proposed loan would be \$25 million, but this figures will be confirmed during appraisal, presently scheduled for September. A second project is expected in FY 75.



FY 75

Education III: A third education project is scheduled for FY 75. It will cover essentially the development needs of the secondary education. It was identified at the same time as the two previous projects, but its preparation is less advanced.

Zahana Cement: The project consists of the extension of the existing Zahana cement plant. The total project costs are about \$40 million of which about \$20 million would be financed by the Bank. The processing of this project has met substantial delays due to the reserved attitude of the Minister of Industry towards the Bank. Geological and technical studies have been received and reviewed by the Bank, but the Bank still awaits a feasibility study on the project, especially economic and financial aspects. Recently Mr. Aoufi has said that the Ministry of Finance would prepare the study and has asked the Bank for recent appraisal reports of current projects and, if possible, a feasibility study to act as guidance in preparation. He has also opposed the dropping of the project from the lending program on grounds that it would be unwise for the general relationship with Algeria to drop all industrial projects. While we agree with this point of view we do not have much hope that it will be possible to find a common ground with the Ministry of Industry in time to process this project.

Railways II: When the project identification mission visited Algeria in early 1973 the Railroad presented a large program of renewal and rehabilitation to be implemented over 5-10 years. The first project includes only the most urgent elements in the program and a second railways project is to be realized as a close follow-up on Railways I.



## OFFICE MEMORANDUM

TO: Memorandum for the Record

DATE: August 20, 1973

FROM: R.H. Springuel, Division Chief

EMENA Region, Division 2B

CONFIDENTIAL 2012

SUBJECT: Algeria - Visit of Mr. S. Mahroug, Minister of Finance

WBG ARCHIVES

1. Mr. S. Mahroug visited Mr. McNamara in the afternoon of Tuesday, July 31, 1973. Present were Messrs. Khelif (Executive Director) and Bouselham (Minister in charge of Algerian Interests in Washington), and Messrs. Knapp, Hartwich, and Springuel.
2. The Minister expressed satisfaction that the common resolve of the Bank and Algeria had borne fruit, thus ushering a new period in relations. Algeria would continue to press for increasing capital flows from the Bank and IDA to finance its growing need for imports of equipment and investment goods, and to improve the debt profile of Algeria which has been forced to rely almost exclusively on the commercial market.
3. A new Four-Year Plan for 1974-77 is being prepared, implying a volume of investments double that of the ongoing Plan, with emphasis on sectors traditionally favored by the Bank, i.e. agriculture, education, and infrastructure. In addition to its efforts to increase production, the Government is also trying to expand employment and to redistribute the benefits of economic development either directly - for example through generalized health care to start on January 1, 1974 - or indirectly, through the budget.
4. The industrialization effort would be pursued with emphasis on exports of transformed raw materials, particularly natural gas, and on the production of consumer goods. While industrialization is politically a "fait accompli", the thrust of development would now be towards farmers and youth. The span of education would be increased to nine years (six years of primary and three of secondary) so that all Algerians would attend school until the age of 16 or 17.
5. Algeria's efforts provided many projects eligible for Bank financing, and in this context the Minister was happy to note the sustained rhythm of Bank missions to prepare and appraise projects. He wanted in particular to mention the Port of Arzew for gas exports, several cement factory projects which have been submitted to the Bank, and the railway program. The railway system should soon be modernized extensively, and the Government was considering the creation of a new east/west main line in the south of the country to bring economic benefits to this region. Also in infrastructure, the trans-Sahara highway presented both internal and international economic benefits. Finally, between now and 1980 an effort would be made to mobilize 120,000 young people for six to eight months in a reforestation program in the south designed to stop the encroachment of the Sahara desert and perhaps transform the climate of the high plateaux of Algeria.

President has seen

Memorandum for the Record

August 20, 1973

6. Mr. McNamara pointed out that the cost of the port project was very high, indeed too high for Bank financing alone, and asked whether the Minister would have any objection to the Bank's organizing joint financing for it. The Minister had no objection to such financing provided it was complementary to that provided by the Bank, was on equally long terms, and that the Bank had the leadership in any financing group. The Minister linked the duration of loans to needed improvements in the profile of Algeria's external debt. Referring to the financing problem, external and internal, posed by the size of the new plan and which had been pointed out in the Bank's recent economic report, the Minister suggested a joint mission by the Bank and Fund to review and evaluate Algeria's financial management practices and to advise as to the financing of the new plan.

7. Turning to regional cooperation, the Minister mentioned proposals for joint cement factory projects with both Morocco and Tunisia. More recently, King Hassan of Morocco had suggested a road from Tindouf to Mauritania to be financed jointly by Algeria and Morocco. The Minister expected that the Bank would be called upon to help finance this road and thus assist north/south cooperation.

8. With regard to the gas export schemes, the Minister said that he had carefully read Mr. McNamara's remarks at the recent Board meeting on the highway and education projects and was ready to agree that it was premature for the Bank to consider these schemes right now; in the medium term, however, he hoped that the Bank would realize that such projects "went beyond the Algerian economy and attached Algeria to Europe irrevocably." It would be particular cause for regret if, ten years from now, one realized that the Bank had not participated in the gas export projects by financing either shipping or perhaps pipelines. He hoped that the Bank would be interested in the gas projects and if it could not help with financing, it could at least help with advice. In this respect, he wanted to acknowledge that the comments and advice given by the Bank had been very helpful in completing the El Paso arrangements.

9. The Minister brought up two other points relating to the increase of the capital flow from the Bank. Firstly, the need for a continuous Bank presence in Algeria, possibly through the creation of a regional office. Algeria did not want to interfere in any way with the work of the Abidjan office or create any problems for other African states. Within these limitations, Algeria would like to express its desire for a regional office. If no such office could be established, however, the Minister hoped that the Bank would continue to ensure a regular stream of missions for project preparation and appraisal, so that the Bank's efforts in Algeria would not slow down.

10. The other element related to the flow of capital from the Bank was the problem of compensation which the Algerian Government had undertaken to resolve. The Minister was fully aware that as the Bank's lending increased, so did the questions of some important member countries on this problem. The Minister was very grateful for the conviction expressed by Mr. McNamara at the Board meeting in June that a solution could be worked out. The Minister had that day met with Mr. Giscard d'Estaing, and the tone of their conversation had been most friendly - in contrast to the attitude of Mr. Viénot at the Board meeting. The recent visit of Algeria's Minister of Foreign Affairs, Mr. Bouteflika, to Paris had

Memorandum for the Record

August 20, 1973

also considerably improved the atmosphere with France. In summary: (i) discussions with GENAPI had slowed down both because of the summer period and because of illness of the head of the Algerian delegation; nevertheless contacts were being maintained through the legal advisers of both parties; (ii) GENAPI, which had been claiming FF 1,300,000,000 had scaled down its claim to FF 700,000,000 by abandoning claims on interest and profits foregone. This was a more reasonable attitude although their claim was still extremely high considering the settlements reached with oil interests which represented much more useful and more recent investments than those of GENAPI.

11. Parallel to the GENAPI discussions, Algeria was considering solving the problem at two other levels: first, there is an increasing realization between the Governments concerned that the problem had to be resolved one way or another, and while the French Government had emphasized that it would be difficult for it to substitute itself for the private sector, if only because of the problem of the former "colons", it realized that an imaginative approach would be necessary to solve this issue. Secondly, however, while the Algerian Government was vigorously pursuing a solution through discussions with GENAPI and with France, Algeria, as a matter of hypothesis, would have to envisage its course of action if these discussions were not successful. Under such a hypothesis, the Government envisaged deciding upon the solution unilaterally and offering a lump sum to a person designated to distribute it amongst the claimants. While officially this would be a gesture of the Algerian Government, in actual fact the lump sum and the person to distribute it would be determined only after thorough discussions with all parties and hopefully with their agreement. The person who might be asked to allocate the proceeds of the settlement would probably be Mr. Huvelin, former President of the Conseil du Patronat Français. Mr. Mahroug emphasized that while Algeria was asking for increasingly large efforts on the part of the Bank, it was, in return, doing everything within its power to ensure that the positive policies adopted by Mr. McNamara would not cause criticism of the Bank.

12. Reverting to the external debt problem, the Minister said that his role was to foresee events and to present medium term programs. He could foresee a possible external debt problem in the 1977-1980 period when it would be enough for one gas liquefaction plant to be delayed by as little as one year to create a very serious financial situation in Algeria. He was happy not to have had recourse to the IMF as yet and emphasized Algeria's intention of avoiding a call on the Fund at least until 1977. This is why he was pleading so vigorously for a massive and sustained intervention of the Bank directly and through joint financing.

13. Finally the Minister was aware that Mr. McNamara would be extremely busy in Nairobi and when the Minister saw him there, it would be to hand him a formal invitation to visit Algeria in April or May when the Plan would be out of the way and the weather would be most favorable. He hoped that Mr. McNamara would be able to meet Algeria's leaders, particularly for an in-depth discussion with President Boumedienne who spends 90 per cent of his time on economic development, and to see the country at work, not only

Memorandum for the Record

August 20, 1973

through large projects, but also to see the efforts of simple people doing their best with often inadequate means.

14. Mr. McNamara replied that he very much appreciated the invitation; he had not yet prepared his travel schedule for next year, but expected to do so before Nairobi. He could not answer the various points raised by the Minister, but he promised that they would be examined carefully and discussed in Nairobi. With regard to the idea of a regional office, Mr. McNamara wanted to mention the problems to which the Minister had alluded and in any case, Mr. McNamara was not certain that such an office was needed to move Bank projects rapidly. Mr. McNamara emphasized that he wanted such projects to progress rapidly and told Mr. Mahroug to call on him, Mr. Benjenk, or any other person present at the meeting if the Minister felt that a project was not moving as fast as it should.

cc to Mr. McNamara's office (2)

cc: Messrs. Knapp  
Benjenk  
Hartwich  
Springuel/Homsi

## OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara

DATE: July 31, 1973.

FROM: Dieter Hartwick *DH*SUBJECT: ALGERIA - Visit of Finance Minister Mahroug

1. Finance Minister Smaïl Mahroug, who is in Washington for the Group of Twenty Meeting, has asked to see you. He will be accompanied by Mr. Khelif and possibly by Mr. Bouselham, Minister Plenipotentiary and Chief of the Algerian Interests Section of the Embassy of Guinea in Washington.

7/31  
2. Mr. Mahroug will want to express his appreciation to you on the successful completion of the "Copenhagen Agreement" between you three years ago. He will also want to discuss the launching of what he calls a new phase in the relationship with Algeria. As the prime mover of improved relations with the Bank, he hopes to return to Algeria with assurances of increasing Bank interest and support. He believes that it is important to carry such a message back to President Boumediene, who is said to remain skeptical about a real breakthrough in Bank/Algerian relations.

3. The need for such support has become clear to Algeria following receipt of the Bank's economic report which estimates that during the next Four Year Plan (1974-1977) Algeria will need to obtain about \$5 billion gross from abroad. You will recall that at the last CPN review meeting in April, you decided upon a lending program of about \$70-80 million annually, with recourse to you if we thought additional lending were justified.

4. The project pipeline is filling rapidly and projects for railways, power, education, ports and possibly industry are due to be appraised before the end of calendar year 1973. Two of these are of particular interest:

(1) Railways: A railway project of \$25 million has been pre-appraised and an appraisal mission is scheduled to arrive in Algiers in September 1973. A second railway project will be prepared through studies financed under the proposed first loan, and should be ready for appraisal in July 1974. These projects are said to be of especial interest to President Boumediene.

(2) Port: Proposals to expand the port of Arzew have been modified in favor of constructing a new port east of Arzew to serve the gas export schemes. Cost estimates for the new port have been prepared and are in the \$250 million to \$300 million range. The foreign exchange component is still being calculated, but is likely to be in the neighborhood of \$140 million to \$150 million. (The lending program had allocated \$40 million to the previous expansion scheme.)

July 31, 1973.

-2-

Because of the urgency facing the construction of this new port and its economic importance, the Algerians regard its consideration by the Bank as a "test of mutual confidence." It is clear that the Bank cannot finance the whole foreign exchange component and we should obtain the Minister's views on joint financing and whether he agrees to the Bank's trying to arrange such financing (e.g. from Arab sources and Kreditanstalt für Wiederaufbau). A project preparation mission had no major difficulties with this project; we expect its report on its return from other missions in the region. Appraisal is scheduled for October.

5. Compensation: We have had no reports on recent progress of the compensation issue. You should enquire as to the current status and prospects. Relations between Algeria and France have improved recently following the visit of Foreign Minister Bouteflika to Paris where he was well received. The results of this visit were received with satisfaction in Algiers, though no concrete achievements were given beyond what is called "a normalization" of relations between the two countries. Mr. Khelif mentioned to me that Mr. Mahroug can bring us up to date on this subject, particularly in the light of the Bouteflika visit.
6. I will have further discussions with the Minister after your meeting, particularly concerning the items under 4(1) and 4(2) above.
7. The postscript to the Algerian CPN is attached.

cc: Mr. J.B. Knapp  
Mr. M.P. Benjenko/r  
Mr. G. Votaw



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WBG ARCHIVES

COUNTRY PROGRAM NOTE

ALGERIA

Postscript

38. On April 27, 1973, a meeting chaired by Mr. McNamara reviewed the CPN and the lending program attached. It was noted that the proposed program was tentative, would be difficult to develop, and might be rather ambitious. Regarding the sector work, an early agricultural sector mission would be desirable, provided it was well accepted by the Government, and the great importance given to transportation in the early part of the program would justify advancing the transport mission. The first railroad project, as summarily described in the CPN, was perhaps not suitable to start lending for the railroad, and the Region was requested to provide additional information on the subject (since done).

39. It was also noted that it was not proposed to consider IDA financing for Algeria, but that a case might be made in the future for extended grace and amortization periods of Bank loans when relevant factors would have been studied. Considering that potential financing of gas export projects would have to be very large to be effective and that Algeria had a potential debt service problem, it was decided that Bank financing should be in other sectors where the amounts needed would be smaller and more effective for economic development.

40. In conclusion, it was noted that the Bank needed time to gain acceptance in Algeria (particularly in the agricultural sector) and should approach the relationship in a realistic manner. It was decided that the lending program should be set at about \$60-75 million in FY 74 (depending on the Railroad project), \$70 million in FY 75 and \$80 million in subsequent years, it being understood that the Region could come back with higher proposals if circumstances warranted. A new lending program is attached, including the first Railroad project which was maintained on the basis of the additional information provided by the Region.

Europe, Middle East and  
North Africa Department

July 16, 1973

Population: 14.2 mil.; 3.3% p.a.  
 Per Cap. Inc.: \$320 (1972); 4.1 p.a. 1973-80  
 Area: 2,381,741 sq. km.  
 Literacy: 25% adult pop. (1966)

Attachment I

ALGERIA - ACTUAL AND PROPOSED LENDING THROUGH FY 1978  
 (\$ million)  
 FISCAL YEARS

		Through 1968	1969	1970	1971	1972	1973	1974	1975	1976	1977	1978	1979	Total 1964-68	Total 1969-73	Total 1974-78
Power	IBRD	10.0														
Pipeline	IBRD	50.0														
Gas Liquefaction	IBRD	20.5														
Agriculture: Unident. I	IBRD								20.0							
" II	IBRD										20.0					
" III	IBRD											20.0				
" IV	IBRD												35.0			
Education I Tech. Institute	IBRD						6.0									
II Oran University	IBRD							25.0								
III Secondary Educ.	IBRD								25.0							
IV Unidentified	IBRD										30.0					
V Unidentified	IBRD												20.0			
Industry: I Cement	IBRD								20.0							
II Unidentified	IBRD									30.0						
III Unidentified	IBRD											25.0				
DFC: I	IBRD									30.0						
II	IBRD											40.0				
Mining: Gara Djebilet	IBRD												50.0			
Power: I Reorg. & Mis. Eqpt.	IBRD							10.0								
II Unidentified	IBRD									30.0						
III Unidentified	IBRD											25.0				
Highways: I Improve & Studies	IBRD						18.5									
II Imprv & Sahara I	IBRD								25.0							
III Imprv. & Sahara II	IBRD										40.0					
Ports: Arzew	IBRD							40.0								
Railways: I Renewal	IBRD							25.0								
II Renewal	IBRD								25.0							
III Renewal	IBRD										25.0					
Operations Program	IBRD	80.5					24.5	100.0	95.0	110.0	115.0	110.0	105.0		24.5	520.0
		3					2	4	4	4	4	4	3		2	20
Lending Program	IBRD						24.5	75.0	70.0	80.0	80.0	80.0	80.0		24.5	385.0
							2	3	3	3	3	3	2		2	15
African Development Bank					3.0											
IBRD o/s 1/ incl. undisb.		37.6	30.7	23.8	16.7	13.2 <sup>2/</sup>	34.6	106.3	172.8	249.4	329.0	407.6	483.8	-	-	-
excl. undisb.		37.6	30.7	23.8	16.7	13.2 <sup>2/</sup>	10.1	8.7	17.2	42.5	88.6	147.2	217.3	-	-	-
IBRD Gross disbursements		80.5	-	-	-	-	-	1.9	11.9	28.8	46.4	60.0	74.0	20.5	-	149.0
Less: Amortization		43.0	6.8	7.0	7.1	5.0	3.1	3.3	3.5	3.4	0.4	1.4	3.8	29.1	29.0	12.0
Equals: Net disb.		37.5	-6.8	-7.0	-7.1	-5.0	-3.1	-1.4	8.4	25.4	46.0	58.6	70.2	-8.6	-29.0	137.0
Less: Interest & Charges		26.6	2.0	1.7	1.3	0.8	0.6	0.7	1.5	3.0	5.0	9.7	14.4	14.1	6.4	19.9
Equals: Net transfer		10.9	-8.8	-8.7	-8.4	-5.8	-3.7	-2.1	6.9	22.4	41.0	48.9	55.8	-22.7	-35.4	117.1

1/ As of end of fiscal year

2/ The exchange adjustment of \$1.4 M as of June 1972, has been included in these figures

NOTE:

All data in the last seven lines reflect  
 o/s amounts and transactions of loans  
 sold to third parties

Europe, Middle East and North Africa Department  
 July, 1973

13.

## OFFICE MEMORANDUM

TO: Memorandum for the Records

DATE: September 27, 1973

FROM: Dieter Hartwich *DH*SUBJECT: Annual Meeting 1973 - Meeting with the Algerian Delegation

Finance Minister Mahrough accompanied by Mr. Khelif and Mr. Hassam called on Mr. McNamara on September 27. Present were also Messrs. Knapp, Benjenk and Hartwich.

Mr. Mahrough first complimented Mr. McNamara on his Annual Meeting speech and said that he fully shared the emphasis put on rural development. He had heard from many other delegations similar appreciation for the speech. Mr. Mahrough then expressed his Government's great satisfaction with the rapid progress which had been made in activating operational relations. The Government was now convinced of the Bank's readiness to help Algeria and was interested in looking to the Bank as a permanent source of capital. He paid compliments to the effectiveness with which the staff involved in work on Algeria had handled matters and in particular to their open-mindedness towards the specific characteristics of the Algerian system. Mr. McNamara thanked the Minister for this expression of confidence and added that the progress made would not have been possible without the active support of the Algerian authorities and particularly of Mr. Khelif.

Since a working session had already been held with Mr. Benjenk, the Minister said that he wanted to mention on the project side only the port project connected with the gas export schemes. Mr. McNamara replied that the Bank was aware of its importance and would be happy to take the leading part in a financing group which would put together the foreign exchange requirements for this project. He understood that active discussions on this were underway in Nairobi.

The Minister then handed Mr. McNamara a letter inviting him to visit Algeria. Mr. McNamara accepted the invitation, and it was agreed that the second part of June 1974 would be a mutually convenient time. The Minister thought that the visit should be preceded by a mission which would look at the forthcoming development plan expected to be ready in November. On the basis of the mission's findings, the general lines of Bank assistance to Algeria should be agreed upon for several years. He realised of course that Mr. McNamara's visit was not the occasion to discuss individual projects but the findings of this mission should provide the general context for the discussions to be held with President Boumedienne and others.

The Minister underlined the importance the Government attached to the request made jointly to the Bank and Fund for technical assistance to improve financial planning. Mr. McNamara replied that he fully endorsed the importance of this undertaking and said that the necessary manpower resources would be made available for this purpose.

The Minister then said that for purposes of long term financial planning it would be important for Algeria to know the appropriate level of lending it could expect from the Bank. He expected that the Bank lending would be particularly for social and economic infrastructure and for less developed regions. For other purposes, commercial credits could be obtained, but since Algeria's debt profile was unfavourable, a sizeable share of Bank lending in the total external capital requirements was extremely important. Mr. McNamara said that given the existence of good projects, the Bank was prepared to make a long term commitment to contribute to Algeria's economic development. During the forthcoming visit, he would be prepared to review the long term outline of the Bank's assistance to Algeria and also to indicate the scope of the Bank's financial involvement.

The Minister reported that there had not only been an improvement in World Bank/Algerian relations, but also in the relations with some very important bilateral partners. He had had a useful talk with the French Minister of Finance.

A further discussion between Minister Mahrough and Mr. McNamara is recorded in a separate memorandum.

cc: Mr. McNamara's office (2)  
Mr. Knapp  
Mr. Benjenk  
Mr. Bart  
Mr. Wapenhans  
Mr. Springuel

DHartwich:rpo/jcb

14.

## OFFICE MEMORANDUM

TO: Memorandum for the Record

DATE: December 28, 1973

FROM: R.H. Springuel, Division Chief, EMENA 2 A

SUBJECT: ALGERIA - Visit of Mr. Abdesslam, Minister of Industry and Energy

1. Mr. Belaid Abdesslam visited Mr. McNamara on Thursday, December 6, 1973. He was accompanied by Messrs. Bousselham, Minister in charge of Algerian interests, Embassy of Guinea; Lakhdari, President of SN REPAL and Director General of SONATRACH; Redouane and Maada, Advisers in the Ministry of Industry and Energy, and Cherif Guellal, representative of the President of SONATRACH in Washington, D.C. Messrs. Benjenk and Springuel were also present.
2. Mr. Abdesslam expressed his pleasure at meeting Mr. McNamara on the occasion of a mission which he was undertaking for the Arab world as a whole rather than for Algeria, and at a time when the finishing touches were being put to the forthcoming Algerian Four-Year Plan.
3. Mr. McNamara also expressed his pleasure at the meeting and hoped that the Minister felt that relations between Algeria and the Bank had been improving over the last year or two. The Minister replied that it was not in his nature to be an optimist in these matters, although recent actions permitted some hope.
4. Mr. McNamara referred to the ongoing appraisals of the port, cement, power and other projects, and to the excellent cooperation received by the appraisal missions from the Algerian authorities. He felt that his attitude was not so much optimistic as it was realistic.
5. The Minister recalled past difficulties between Algeria and the Bank. With regard to projects, the approach of Bank staff and Algeria had, at times, been divergent and the Bank had been reluctant to consider projects because it did not consider them profitable enough or opportune to the development of Algeria. Another difficulty was the procurement procedure of the Bank which differed from Algeria's. For a while, Algeria had offered gas and oil projects for Bank financing in the belief that their rate of return was sufficiently high to generate enough resources for debt service and give full security to the lender. However, the Bank had repeatedly suggested that such projects should be financed by private capital.
6. Mr. McNamara interrupted the Minister on this point to explain that the reluctance of the World Bank to enter the oil and gas sector had nothing to do with the question of public or private sources of funds. The Bank is a lender of last resort; its resources are scarce and should not be used when other sources of finance are available. In the event, Mr. McNamara understood that Algeria had been able to find adequate resources elsewhere. Nevertheless, if it were demonstrated that certain projects in this sector were not being financed in the most appropriate manner, it would be within the role of the Bank to consider them.

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7. The Minister said that regardless of the past, the development program of Algeria was extensive and projects in industry, agriculture, infrastructure and the social field were all suggested for Bank financing. The Minister had told Mr. Hartwich that if there were problems in industry, there could always be other sectors for Bank assistance. Moreover, in industry itself, there were high priority areas which should pose no problems, such as construction materials, food industry for mass consumption (such as flourmills and grain storage) and even fertilizer, which had been a source of difficulties with the Bank because, at the time a project was being considered, there was a problem of external markets; now Algeria had an internal deficit in fertilizers. In summary, the scope for Bank action was extremely wide, and it was essential that the Bank's intervention be significantly large. The total amount of investment for the next Plan would be of the order of \$15 billion and if the Bank wanted to play a role, it would have to offer correspondingly large financing. In this respect, the Minister hoped that the Bank would not limit itself in the future to small projects, as it had done so far.

8. Reverting to procurement procedures, the Minister knew that it was in Algeria's interest to have as widespread international competition as possible; but experience had shown that for many projects there were only three or four serious potential bidders. Because of its own circumstances, Algeria was often compelled to use the turnkey approach; and even when procurement for a project was divided into groups, it was seldom possible to exceed three or four groups for one project. In other cases, the Algerians could go further and have a greater number of procurement packages. However, the Bank's procedures were rigorous and time consuming; indeed, they could even halt a project implementation if, as had been the case, technical and financial agreements had been reached with foreign partners before an indication of the Bank's willingness to consider the project was made known to Algeria. When such a point is reached, the Government had to make a choice either to prolong the waiting period and risk higher costs due to price escalation and losing the foreign partner, or ... (the Minister did not complete his sentence).

9. With regard to the compensation issue, the Minister recalled the several offers made by Algeria to reach a settlement, first in the oil sector and more recently for nationalized French companies -- a question which has been pending for a long time. There had been difficulties in the approach to the discussions with GENAPI, but agreement had just been reached on the amount of compensation and the timing of payments; some other points remained to be settled.

10. In this respect, the Minister further recalled that for a long time, the Government had been trying to find a procedure to be used for an overall settlement; the French Government, however, had declined to enter negotiations and when GENAPI had offered itself as a negotiator, close examination revealed that it could not really play that role as it did not represent all potential claimants. Nevertheless, to avoid further delays, the Minister had agreed that discussions take place but had made it clear at the outset that his Government



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would not implement any agreement which might be reached if it had not received firm assurances from the French Government, the World Bank and all other quarters that once implementation of the agreement had begun, no further claims would be entertained by the French Government or the Bank and that any such claim would be considered invalid. He did not know how this position would be resolved.

11. Another condition in reaching a settlement, the Minister added, was that the question of nationalized mines should not be reopened. This matter had been settled according to Algerian procedures and from the Government's point of view, the matter was closed. Acceptance of this viewpoint was a condition of final agreement with GENAPI. Finally, discussions were proceeding with a number of companies (Belgian, Dutch and American) and the Minister thought that settlements would be reached.

12. Mr. McNamara replied that the Minister had discussed a wide array of subjects: procurement, appraisal, priorities, procurement procedures and compensation; Mr. McNamara felt more optimistic than the Minister and was quite prepared to bet that in a year's time, the Minister would be quite satisfied with the level of lending reached. Algeria and the Bank had had differences in the past but, for the last three years, had worked systematically to overcome them. Difficulties were things that had to be overcome rather than contemplated, and progress in this direction was excellent. Mr. McNamara recalled that he had stated to the Minister of Finance that he (Mr. McNamara) would consider that he had failed in his mission if he had not achieved a sound and satisfactory lending program for Algeria. Mr. McNamara went on to say that he still held that view and considered that the Bank was well on its way towards success. Mr. McNamara added that he did not like to fail in meeting his objectives.

13. The Minister then referred to Mr. McNamara's forthcoming visit to Algeria and expected to see him then, by which time he hoped that one could indeed count the Bank as a major supporter of Algeria's development.

cc: Mr. McNamara's office (original and 2 copies)

Mr. Knapp  
Mr. Benjenk  
Mr. Wapenhans  
Mr. Bart

## OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara, President

DATE: December 5, 1973

FROM: M. P. Benjenk, Vice-President, EMENA Region *MB*SUBJECT: Algeria - Visit of Mr. Abdesslam, Minister of Industry  
and Energy

1. Mr. Belaid Abdesslam, Algeria's Minister of Industry and Energy, will be visiting you on Thursday, December 6, 1973 at 6:30 p.m. He is in Washington, together with Saudi Arabia's Minister for Petroleum Affairs, Sheikh Ahmed Zaki Yamani, to explain the Arab Nations' stand on the oil embargo; they have also visited a number of European capitals for this purpose.

Personal Background

12/6  
2. Mr. Abdesslam is one of the most interesting members of the Algerian Government. He is 45 years old and is an able administrator, articulate and tough-minded, sometimes doctrinaire in his approach to economic development. Nevertheless, there is nothing doctrinaire about the manner in which he runs his Ministry, which employs a number of very competent, often American-trained, Algerians. He is largely responsible for Algeria's oil and gas development which, in a few years, had built up SONATRACH into the eighth or ninth largest oil company in the world by 1971. Foreign oilmen have found him to be a very astute negotiator indeed.

3. Even as an adolescent, Mr. Abdesslam was a militant nationalist and took an active part in the political struggle in France, where he was a medical student and became President of the Maghreb Students Association there. His militant activities in student circles earned him a sentence of four years in jail in 1946, but he was amnestied soon after. He has spent some time in hiding while directing the activities of the many thousands of Algerian students in France. Mr. Abdesslam came into the limelight in early 1962, when he was put in charge of economic affairs in the interim Government which managed the transition between French and Algerian rule prior to independence. He fell from favor during the Ben Bella regime, but his executive talents brought him to the fore again, first as President of SONATRACH and later, in his present capacity as Minister of Industry and Energy.

Previous Contacts with the Bank

4. Mr. Abdesslam's relations with the Bank have long been bad following upon a meeting with Mr. Woods, in April 1967, during which he felt that he had been badly treated. At that time, the Algerian Press Service published a rather blistering account of his conversation with the Bank. Our own record of that conversation is attached as Annex A; it reflects the substance, but not the tenseness, of that meeting. With the advantage of hindsight and in the light of Algeria's achievements since then, I would have to say that the Bank's position in 1967 was perhaps unduly rigid.

President has seen

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5. Mr. Abdesslam has usually not met Bank's missions, although I was received by him, as was Mr. Hartwich who visited Algeria in May 1973, and reported that Mr. Abdesslam "was extremely skeptical and doubted whether the Bank will want to work in Algeria and whether close cooperation would be at all possible." The Minister's attitude seemed to be that he was not particularly concerned for which specific projects the Bank lends, providing Bank lending was substantial. He indicated that in the ten years when relations with Algeria were frozen, it evolved its own procedures, and that while it would have been glad to conform to Bank procedures at a time when their own thinking was evolving, it was less ready now to change its own system of doing things. The Minister further referred to his country's achievements in industry and stated that these achievements could not have been carried out if Algeria had followed the Bank's approach of detailed appraisals and evaluation, and international bidding, which he considered cumbersome and not suited to complex industrial projects. The meeting with Mr. Hartwich concluded in an agreement that while the Bank was ready to assist industrial development, it was best to leave it to the Government to decide when the time for such assistance had come and for which projects.

#### Future Relations

6. While we have no projects presented directly by the Ministry of Industry and Energy, this Ministry is the supervising ministry for two entities which have presented projects to the Bank; these are SONELGAZ, the national power and gas company, and SNMC, the national building materials company. An appraisal mission for the power project has just returned and will recommend a loan of \$ 35 to 60 million, depending on the economic justification of the various elements proposed. A pre-appraisal mission for the cement project is now in Algeria and the proposed loan is expected to be of the order of \$ 20 million. Finally, a project which is linked to the gas export scheme, but which comes under the Ministry of Public Works, is the port of Bethioua project (see Annex B). Thus, if the Bank is to play a significant role in Algeria, some accommodation with Mr. Abdesslam seems necessary in view of Algeria's emphasis on industrial development, which accounts for nearly half of the country's investment needs.

7. Mr. Abdesslam's visit provides a good opportunity for both sides to ask themselves whether the time has come for mutual cooperation in major industrial projects or whether the Bank should continue to concentrate on infrastructure and education -- in which case the size of the Bank's contribution to Algeria's development is bound to be relatively modest in relation to Algeria's investments. An affirmative answer to this question would affect the composition of the project identification mission we are planning for March 1974, at the same time as the economic mission, as promised to the Finance Minister in Nairobi. This question is, in any case, bound to arise in preparation of your visit to Algeria in the second half of June 1974. I believe that the correct approach to take at this stage of our relations with Algeria, is to proceed gradually, as we are doing, and process, in time,

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projects more connected with industrial development. The relatively modest Sonelgaz and SNMC projects are just right for such an approach, and the large project for the port of Bethioua for gas exports, to be financed in conjunction with the Germans and the Arab Fund, should be pleasing to Mr. Abdesslam.

8. Your meeting with Mr. Abdesslam could thus go a long way in defining the Bank's role in Algeria and in correcting the rather warped understanding of the Bank which exists in some of the top circles of Government.

cc: Mr. J. Burke Knapp

Annexes.

Annex A

## OFFICE MEMORANDUM

TO: Files

DATE: April 18, 1967

FROM: M. P. Benjenk *MB*SUBJECT: Visit to Mr. Woods of Mr. Abdesslam,  
Algerian Minister of Industry

The Algerian Minister of Industry visited Mr. Woods on April 10. He was accompanied by the Algerian Ambassador, Mr. Guellal, the Director General of the Algerian Central Bank, Mr. Belghoula, and Mr. Chandèrli, adviser to the Minister. On the Bank's side were present Mr. Tazi, Mr. El Emary and Mr. Benjenk.

Mr. Abdesslam said that he had asked to see Mr. Woods in order to have a general discussion on some of the problems affecting Algerian industry and on the possibilities of Bank assistance to Algeria in the industrial field. Potentially Algeria had large possibilities in the industrial field but so far discussions with the Bank group had not made much progress because of the difficulties which had arisen. The Minister said he was referring in particular to the project in the fertilizer sector which had been discussed with IFC and to projects in the natural gas area. In the discussions which had taken place there had been differences between the two sides in the approach to two problems, namely those concerned with the markets for the products to be produced and those relating to the management of the entity to be set up. In principle both sides agreed that these were important problems to be resolved but they did not agree on how they should be resolved. The Bank's view, as the Minister interpreted it, was that these two problems should be resolved by Algeria's associating with private groups. Algeria was not opposed to this association, but in all the discussions which had taken place with a number of private firms the conditions proposed to the Algerian Government had been so unreasonable that no agreement had been reached. On the other hand, since the Bank group made it a condition of eventual financing that agreement should be reached with private groups and since potential foreign partners were aware of it, this put Algeria in a very disadvantageous position in its negotiations with such groups. In effect, the position taken by the Bank strengthened the hand of those who were spreading the word that Algeria should not be taken seriously as a potential producer of fertilizer and gas because it would never be able to raise the very large amounts of capital required to set up the expensive plants which were implicit in the production of fertilizers and liquefied gas. Therefore, said the Minister, he had come to visit Mr. Woods to find out what would be the role of the Bank in these matters. Would it support Algeria in its attempt to reach agreement with private groups on a new basis, namely one which would lead to a maximum amount of internal economic development or would it come down in favor of the private groups?

*Fertilizers  
Gas.*

Mr. Woods replied that the Bank group did not conceive its role in matters such as the Minister had raised as one of taking sides, either that of Algeria or those of private groups. The real question was that of the scarcity of technical and managerial experts in the field of chemicals, fertilizers and natural gas processing. The truth was that Algeria did not have the necessary skills to undertake such enterprises by itself and needed to reach agreement with those who could supply these skills. The Bank group, and more particularly IFC, was prepared to help Algeria in its discussions with competent firms interested in entering into partnership with the Algerian Government and to do its best to see that reasonable arrangements were reached. However, the Minister had already had discussions with a number of private groups and all their offers had been found unreasonable by him. Since these firms were all in competition with each other, Mr. Woods wondered whether Algeria was realistic in the discussions and asked the Minister on what basis the Algerian authorities had determined that the different proposals made to the Government were all unreasonable.

The Minister did not reply directly to Mr. Woods' question but said that the demands that had been made upon Algeria by the private groups involved would have had the effect of preventing any significant industrialization of the country and would have led to a new tutelage of the Algerian economy similar to the colonial regime.

Mr. Woods told the Minister that these questions of technical skill and management should not be related to any ideological views. The skills he was talking about were available not only in the former colonial countries but also in others such as the USSR, Egypt and Kuwait. Algeria, however, did not have them and had to rely upon outside groups to supply them. If it was Algeria's desire to seek this experience in the older industrialized countries, then some kind of a sensible arrangement between Algeria and the technical groups in those countries would have to be reached. As far as the Bank group is concerned, Mr. Woods did not see how, as a prudent banker, he could supply finance without the existence of solid and satisfactory arrangements between the potential borrower and those who could supply the necessary skills and make an enterprise viable. Mr. Woods repeated his question to the Minister as to the basis on which the Algerian Government had decided that previous offers made to it had been unreasonable.

The Minister again did not reply to the question but asked Mr. Woods what was meant by experienced management. If it meant that Algeria would have to contract abroad to secure the necessary technicians and managers to run the plants concerned, Algeria was quite disposed to do this. If, however, it meant that a foreign group had to acquire control of the business in which Algeria would be a partner, this was not acceptable.

Mr. Woods replied that a management contract for the supply of technicians was not a sufficient guarantee of sound management of the

technical assistance

entity to be set up. He felt that what was needed was a partner who would invest his own money and would therefore have some sense of responsibility for the future of the business. He did not think that such a partnership need signify control of the business. As far as the Bank was concerned, the pattern of ownership itself was not important and the fact that the state might be the majority shareholder did not preclude Bank financing as long as management was satisfactory. For example, the Bank was disposed to finance the Moroccan phosphate industry which was state-owned. Mr. Woods urged the Minister to obtain as much assistance from foreign groups as was possible without being unduly affected by ideological motives. The task of guiding the development of a new country was so vast that the leaders of the country could not possibly do everything by themselves and, short of accepting conditions which would impinge on national sovereignty, he felt Algerian leaders' and managers could learn a great deal from a partnership with foreign technical groups. He did not see what Algeria could lose if, for example, a first experiment was tried in association with foreign groups. In a few years it could be seen if this experiment was a useful one for Algeria and the country could then decide whether it wished to continue on this path or embark on further projects on its own. He again asked the Minister to explain to him what kind of conditions set by foreign groups had seemed unreasonable to the Minister.

Mr. Abdesslam replied that there were a variety of such conditions. Some firms had asked for an outright majority control of the entity to be set up. Others, while leaving the ostensible majority ownership to Algeria, had asked for complete control of management. This was not just technical management but also control over the financial affairs of the firm, and in particular of price policy. Some firms had a particular interest in producing at a low price, since their own subsidiaries would be the principal purchasers of the product to be manufactured. They also asked for the supply of raw materials by Algeria on particularly favorable terms. Some of the other conditions put forward were connected with unusually fast depreciation rates, freedom to hold capital balances outside Algeria, customs and taxation exemptions and freedom from exchange control. Some firms had even asked that Algeria should commit itself not to undertake any similar plants without the consent of its partners in the first plant. The upshot of all such proposals was that Algeria would get very little out of it and most of the profits would be made and accumulated outside the national territory.

Mr. Woods replied that two important points emerged from what the Minister had said of his discussions with private groups, and both these points would, he felt, be negotiable. With regard to prices, it was quite clear that Algeria should not agree to any price formula which did not have a reasonable relationship to the world price for the product concerned. With regard to respective shares of ownership, Mr. Woods said that even if a foreign partner wanted 51% of the capital stock of the new firm, it might be in Algeria's interest to accept this, if this

meant experienced management and access to markets. It might be that IFC would take up a small share of the equity, which would ensure that neither of the partners had an absolute majority. Such an arrangement might help Algeria and its potential partners to arrive at an agreement which did not contain some of the doubtful features about which the Minister seemed to be worried. He urged the Minister, however, not to start from the assumption that all foreign groups were out to exploit Algeria and to try and experiment with at least one reasonable partnership before reaching a final conclusion for the future.

Mr. Abdesslam, turning more specifically to projects in the natural gas field (transport and liquefaction of gas), said that in this area, too, discussions with private groups had been inconclusive in spite of the fact that some of the proposals made to private firms by Algeria would have guaranteed them a net remuneration on their capital of between 17 and 25 percent. But here again some of these firms had preferred not to conclude any agreement in the belief that Algeria could not raise the capital without their support and had therefore insisted on even more favorable terms, which Algeria had not been willing to grant them. The Minister said that the Bank might play a helpful part if it took upon itself to tell Algeria and others what seemed to it to be a reasonable arrangement for such a partnership, an arrangement which would give a foreign partner satisfactory profits but also leave sufficient accumulation for Algeria to invest in its future development. If the Bank was not willing to help Algeria at this stage of its development, this would mean that Algeria would be obliged to walk alone.

Mr. Woods replied that it was not possible for the Bank group to put forward a hypothetical arrangement for Algeria and interested technical groups. Such solutions could only emerge from discussions between Algeria and its potential partners in Europe and North America. The Bank group was ready to participate in such discussions, listen to both sides and help to find reasonable solutions. At this point of Algeria's industrial development, advice was the best way in which the Bank could help Algeria and Mr. Woods offered this help to the Minister. He advised the Minister to continue seeking the cooperation of experienced groups, including that available in such countries as Mexico, which had undergone an experience similar to Algeria's thirty years ago. While money was important, Mr. Woods said that he saw it as his duty towards developing countries like Algeria to explain to them some of the realities of life and, in particular, to make clear that some of the more ambitious goals which new countries set themselves could only be accomplished with the help of those who have the technical experience and know-how. Large amounts such as were implied by the projects under discussion could not be invested prudently without the cooperation of skilled technical groups and he could not change his point of view on this point.

Mr. Woods thanked the Minister for his visit and said that he hoped that the Bank would complete one or two transactions with Algeria before the end of the current calendar year which should bring Algeria and the Bank closer together.

MPB/mct

cc: Messrs. Woods, Knapp, Rosen, El Emary



Annex B

Port of Bethioua Project

Construction of the port of Bethioua is the key infrastructure link in Algeria's natural gas export schemes. Financing for the gas pipelines, gas liquefaction plants and tankers has been obtained through EXIMBANK and consortia of U.S. and European Banks; the Bank has been requested to help finance the port of Bethioua and to arrange for financing from other sources.

Original plans called for the expansion of the port of Arzew to handle gas exports and the Bank had allocated \$40 million to this project in its lending program. However, a large increase in the quantities of gas contracted for export to the U.S. and Europe compelled consideration of a larger port to export some 40 billion cubic meters of gas each year, with additional contracts still being negotiated. Most of these contracts run for 20 or 25 years. Proven gas reserves are of the order of 4,000 billion cubic meters. Algeria is not applying to gas either the reduction in exports or the boycott decided by the Arab oil-producing countries.

The total cost of constructing the port at Bethioua is about \$300 million, with a foreign exchange component of about \$180 million. We have already informed the Algerian Government that the Bank cannot finance the whole foreign exchange requirements and the Government has approached Kreditanstalt für Wiederaufbau and the Arab Fund for Economic and Social Development to request their participation. The Bank's preliminary contacts with these institutions have been encouraging. In the case of KfW, a decision in principle by the German Government is expected shortly.

The appraisal report on Bethioua is now being prepared and we expect to be discussing the outlines of joint participation with KfW and the Arab Fund later this month. In the meantime, however, the Bank will have to decide on the amount it is prepared to lend for the project; the total lending volume approved at the CPN review meeting last April is now clearly insufficient to meet the requirements of projects which have already been appraised. A memorandum will shortly be submitted to Management, explaining the rationale for higher lending volume to Algeria; that memorandum will recommend that the Bank's contribution towards the cost of Bethioua be about \$ 70 million, for a total lending volume of up to \$170 million for FY 1974.

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