President G.D. Woods Briefs - 21st Annual Meeting Africa Vol. 2 1966

FORM No. 57

INTERNATIONAL DEVELOPMENT ASSOCIATION | INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT | INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

TO: Mr. George D. Woods

DATE: July 5, 1966

FROM: J. Burke Knapp JBK

SUBJECT:

I attach for your information three memoranda on African regional planning problems which have been produced by our Project Department experts in the fields of transportation, power and telecommunications, respectively. These memoranda have emerged from discussions which I have had with Mr. El Emary and Mr. Chadenet together with their advisors.

You will find that these memoranda are rather conservative in their estimate of the possibilities for useful planning on a continental scale in the field of African public services. However, I think they provide a lot of useful information, and particularly in connection with the transportation memorandum, indicate a constructive approach which might be taken by the Bank toward the intensification of our African transportation studies.

When you have had a chance to read these papers perhaps we could have a talk about it.

cc: Mr. El Emary
Mr. Chadenet

Form No. 57

INTERNATIONAL DEVELOPMENT ASSOCIATION | INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT | INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

TO: Mr. J. Burke Knapp

DATE: June 21, 1966

FROM: Warren C. Baum

SUBJECT: AFRICA: Transportation Planning and Studies

Following the discussions held in your office last week, we have revised the memorandum on regional transport planning in Africa.

Major Considerations

There are several major considerations in approaching transport studies in Africa:

First, regional transport studies can contribute to the more effective integration of the African countries. The existing transport system is based primarily on political and administrative considerations which were relevant under the previous colonial arrangements but which have now lost much of their relevance. As for economic considerations, the transport system is geared largely to facilitate the export of raw materials from the interior to the nearest port and the import of finished items; as a result, intra-African transport is limited mainly to bringing goods through coastal countries to land-locked countries. These economic considerations are likely to change in the coming decades; as economic development proceeds, more interchange of goods and people should take place within Africa, and it is important that adequate transport exist to facilitate these movements. Even assuming that there are no changes in existing political boundaries, transport planning may help to avoid the dispersion of economic resources that should be exploited as a whole. Transportation planning on a regional or sub-regional basis can also serve the useful purpose of avoiding the duplication of facilities that is bound to occur if each nation continues to develop its transport system in isolation.

Secondly, the Economic Commission for Africa (ECA) has already given considerable attention to useful transport studies and a number of European countries have been approached to undertake such studies. According to Mr. Burney, the Bank representative in Addis Ababa (in his letter of May 18, 1966) ECA has prepared a paper on transport development in the Great Lakes region (Kenya, Tanzania, Uganda, Zambia, Rwanda, Burundi, Malawi); the German Government is preparing a study for West Africa (excluding the former French associated territories); the French Government is preparing one for these territories; and the Belgians are studying the possibility of linking the Great Lakes countries to Western Africa. Preliminary results of these studies are expected to be available in the fall. The British Government had been giving some consideration to a study for the East African region before the Rhodesian crisis. And the U.S. Government seems to have agreed to provide ECA with a transport adviser, reportedly from the Northwestern

University Transport Center, to review existing reports and those under preparation and to recommend steps to prepare a systematic transport development program. Studies now underway thus seem to cover all of Africa, except for the northern region, South Africa and the Portuguese colonies. Except for the Great Lakes paper which has recently become available, we have, however, no information on the funtional scope and depth of these studies.

Thirdly, transport planning must be properly integrated with planning in other sectors. If such other planning is not taking place, the transport plan tends to be of only limited value. The limited planning which now exists in Africa is generally only on a national basis and under ECA auspices efforts for regional planning are just beginning. Since the transport planning must be in the broader context of regional economic development as a whole, this is an added reason for confining the individual studies to regions of a manageable size; otherwise the task will quickly become too large to organize and carry out effectively.

Finally, there is a question of priorities. Given the limited manpower and resources which are available for transport studies, the question arises whether inter-country connections are as important to open up new areas within particular countries. If it is more important to open up new areas in Nigeria, Ethiopia or the Sudan, for example, than to provide better inter-African connections, such studies could distort economic priorities. On the other hand, long-range planning of regional transport networks as a whole should help to ensure that when individual links in the network become justified, they are constructed in a manner consistent with the ultimate objective.

Major Study Possibilities

There appear to be several major study possibilities:

1) A study of virtually continental scope covering Africa south of the Sahara and north of South Africa. This would be an immense and very costly undertaking. In similar other situations (India, Brazil), we have decided that it would be preferable to divide such a large area into meaningful regions, prepare transport studies for them and ultimately develop a transport plan for the larger region from the individual smaller studies. These considerations would seem to apply even more strongly to Africa since we would be dealing with an even less integrated economy, areas where practically nothing is known about the natural resources, and numerous countries with different transport policies.

2) Regional studies involving several countries. We are close to agreement with the Governments concerned for such a study in Uganda, Kenya and Tanzania; it will focus primarily on transport policies for more effective coordination and is not intended to provide a detailed investment plan, though this is still subject to consideration by the mission which has recently held discussions with the Governments in East Africa. Other possible regions might be Ethiopia, Sudan and Somalia; groups of countries in West Africa.

3) Intra-African aviation study. As far as passenger transport is concerned, present intra-African service is quite unsatisfactory since much of the service is still oriented toward Europe. As a result, it is often necessary to travel from some parts of Africa to others via Europe. Improved intra-African service could thus make a valuable contribution toward African integration. Such a study might also focus on the possibilities of regional collaboration for joint operation of airlines and thus help avoid the uneconomic development of airlines based on national boundaries.

4) Feasibility studies for specific inter-country links, such as the Trans-Sahara road, a railway from Nigeria to the Sudan, a road from Nairobi to the Nile, connections from Ethiopia, Kenya and Somalia to the new Somali port of Chisimayo, etc. This type of study could also deal with such specific transport problems as shipping costs to various parts of Africa, or the navigation implications of river basin development schemes. Many of these projects may be motivated by non-economic considerations but those familiar with Africa may be able to identify projects which are probably also economically justified, and the studies should in principle be prepared to take some account of political and administrative considerations as well. The land-locked countries of Africa are a special case, and we have already been concerned with some of their problems (Zambia, Mali-Senegal, Cameroon-Chad). Usually there are a number of alternative means of access to the sea, involving the interests of several countries and calling for a regional approach if uneconomic investment decisions are to be avoided. Application of the United Nations Draft Convention on Transit Trade of land-locked countries would make a significant contribution in this direction.

Some measure of standardization of road design standards and regulations in Africa is essential in order to provide a suitable basis for the future integration of the road networks of neighboring countries and regions. At present, there is a wide divergence of road and bridge design standards, permissible truck loadings and vehicle characteristics, rules of the road, etc. As a first step, an inventory should be taken of existing practices; the next step would be the evolution of a common policy in these fields, with some indication of programming and the estimated costs of the proposed changes. UNESCO is already doing some work along these lines, and the Bank has recently been invited to participate in its activities.

Next Step

The next step in determining how the Bank can most effectively participate in transport studies in Africa is to prepare an inventory of the numerous studies that have been or are being made by ECA and various countries which have a bearing on this subject. This would enable us to determine what are the highest priority needs to fill and to draw up a program of further studies accordingly. The preparation of such a study would in itself be an appreciable task, which would best be handled by contract with an independent research group. (Before doing so, it would be desirable to check with ECA and the U.S. Government to see what they are doing along these lines). The inventory study could itself proceed in stages; certain studies of obvious high priority, such as that of regional aviation in Africa, might be reported on first so that further work could get underway while the rest of the inventory was proceeding.

HAAdler/WCBaum/ra
IBRD

Cleared with and cc: Mr. Chadenet
: Mr. Williams

Form No. 57

INTERNATIONAL DEVELOPMENT ASSOCIATION | INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT | INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

TO: Mr. J. Burke Knapp

DATE: June 20, 1966

FROM: J. C. Lithgow JCL

SUBJECT: Africa - Regional Power Interconnection

The sheer size of the African Continent, the number of countries involved, the variation in climatic and economic conditions and the strong nationalistic attitudes of the people all make generalizations of the problem of international power development over the next few years very difficult.

Although to some extent there are transmission facilities between countries in various parts of Africa, these were generally constructed prior to independence of the countries concerned and, even when under a common protective power, construction was only possible after protracted discussion between the respective colonial governments.

Because of the distance separating the present load centers in African countries, power transfer between them could generally only be achieved by the use of high voltage transmission with its consequent high capital cost. With the exception of South Africa, generally no loads exist even within a country sufficient to justify the cost of constructing internal high voltage transmission systems and such systems as exist are justified not because of the load carried but the distance power must be transmitted.

However, at present there are undoubtedly some areas where power transfer between the countries could be of benefit, provided the political difficulties can be overcome, for example, with the hydroelectric developments now under way in Nigeria and Ghana, it is very likely that transmission between Nigeria, Dahomey, Togo, Ghana and Ivory Coast could be economically feasible and could be of great benefit to Ivory Coast, Togo and Dahomey in reducing their dependence on high cost imported fuel and to Nigeria and Ghana not only because of fuel costs but also for better utilization of their hydro resources. Also the present interconnections between the East African territories of Uganda, Kenya and Tanzania could be expanded to transfer greater amounts of power between them and make better use of their hydroelectric potential.

Fundamentally, and apart from political considerations, at present and for some time to come, the relatively small widely dispersed nature of the load demands prevents any real justification for international transmission of power. There are vast resources of hydroelectric power available which could be made even more attractive with interconnection - if the demand existed. Kariba would only be marginally economic had the copper belt load in Zambia not existed. Volta Project in Ghana could not have been justified without the construction of the aluminum smelter. Power resources exist and it would seem undeniable that international transmission would be valuable but the wide development of both must await the advent of a greater degree of industrialization than at present can be foreseen. It must not be overlooked, however, that, in Africa, international cooperation is not very obvious at present and electrical transmission forces a degree of interdependence which is not essential to other communication channels. There would therefore be an essential need for political accord between countries before electrical interconnection could be achieved. Without such accord the necessary cooperation to achieve agreements, on design standards, and operating procedures apart from the financial contract would be difficult to obtain.

Study would almost certainly show that there must be many places where small scale transmission across borders could be undertaken with advantage; some notable examples of this at present in operation being between Tanzania and Mombasa in Kenya, and in South East Uganda where a small hydroelectric station supplies a small mine in Tanzania. Lack of demand has, however, precluded large scale transmission except in the case of the connection between the Congo (then under Belgian rule) and the Zambia copper belt (then under British control).

If such cases could be ascertained and connections made, their successful operation would be a notable achievement politically and would pave the way for favorable consideration of larger scale interconnections when economic conditions justified their construction.

Due to the distances involved in interconnection, costs are inevitably high and therefore large scale industrialization is a prerequisite to create the necessary demand and provide revenues to justify costs. It would therefore seem essential, before considering interconnection of countries, to have reasonably accurate estimates of their economic growth and to compare power generation costs in the light of possible interconnection. In such comparisons development of power generation in one country may be economic when transmitted to assist economic development in its neighbor. Such a case exists at present between Ghana and Togo.

It is difficult to visualize any large scale international transmission at the present time. Emphasis in the above has been on hydroelectric sources of power simply because Africa has abundant, in fact vast, hydroelectric potential which could be transmitted to load centers when the development is justified and, although high voltage long distance transmission is capital intensive rapid technological advances are now taking place in this field which should have the effect of reducing costs considerably in the future. At the same time the development of small nuclear power sources is being actively pursued and it is possible that in a few years these may be competitive with hydroelectric and transmission costs in which case small local generating stations could make interconnection unnecessary.

It would therefore seem that for the future, although basically the advantages of interconnected systems is undeniable, interconnection between African countries must await the development of demands sufficiently high to justify the capital costs involved and therefore the first requirement to consideration of such interconnections would probably be long-term economic studies leading to an overall study of the potential sources of power and an assessment of the value of interconnecting such sources, and for the immediate future consideration could be given to persuading the African countries to cooperate with their neighbors to ascertain where small scale transmission across borders could operate to their mutual advantage. The interconnection between Ghana and Togo and its possible extension further eastwards to Dahomey and Nigeria together with the extension westwards from Ghana to Ivory Coast would be typical of this latter category.

JCLithgow:lfb
IBRD

Cleared by and cc: Mr. Chadenet
cc: Mr. Ripman
Operational Files
Division File

Form No. 57

INTERNATIONAL DEVELOPMENT ASSOCIATION | INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT | INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

TO: Mr. J. Burke Knapp

DATE: June 29, 1966

FROM: Christian Finne

SUBJECT: African Telecommunications (Revised)

From time to time plans are advanced for ambitious programs of telecommunication facilities to provide direct telephone and telegraph connections between the new countries of Africa. (In this connection consideration is given to the countries located south of the Sahara and it excludes South Africa. The Maghreb countries have well developed telecommunication systems which are connected to France and Italy by cable installations.) Earlier, these plans foresaw extensive cable and/or microwave connections; more recently satellite communication is thought to provide the answer.

The facilities would provide high quality international telephone connections, but would be able to handle an amount of traffic far exceeding what can reasonably be foreseen between African countries and between these and overseas points. The costs of these facilities are also substantial and are in particular large when compared to these countries' present investments in telecommunication facilities.

As an example, Ethiopia which has a reasonably developed telecommunication system, is at present investing a total of some $3.5 million annually for all telecommunications, including broadcasting stations. A satellite ground station would cost about $5 million. Annual cost of operation of the ground station, including payments to COMSAT, could be estimated at about $1 million, which compares with present total operating expense of Ethiopian telecommunications of about $3.5 million. A study prepared by COMSAT shows that a ground station located at Addis Ababa could only be expected to be financially self-supporting after a period of 8 to 10 years.

During the recent negotiations with the East African Common Services Organization, which is responsible for the operation of telecommunications in Kenya, Tanzania and Uganda, the problem of international services was also discussed. The East African system is probably one of the most developed in Africa. The management, after reviewing possible alternatives for introducing higher grade international service, had reached the conclusion that the traffic potential could not yet support the substantial investment required. As a result improvements now made are limited to extensions of existing HF radio installations.

In West Africa the problems are in particular complicated because of the many countries involved. There would seem to be scope for regional interconnections to build up a sufficient traffic potential for the operation of one or more satellite stations. It should be borne in mind, however, that the distances involved for these interconnections are considerable and construction costs would reach substantial amounts.

These costs would have to be justified on the basis of a reasonable estimate of potential traffic. The construction work within each country would come in addition to the expansion of its internal telecommunication facilities, and the combined program would have to be reviewed to ensure that the responsible organization would be technically and administratively competent to carry it out and maintain its operation on a financially sound basis.

In 1965 the International Telecommunication Union (ITU) office attached to the Economic Commission of Africa (ECA) in Addis Ababa advanced a proposal for a program of regional studies of telecommunication development. This proposal was discussed in detail in a meeting held in Abidjan and attended by representatives of telecommunication organizations in Egypt, Tunisia, Ethiopia and UAR as well as officials of the African Development Bank (ADB). It concluded that at the present time interconnection between African countries should consist of the improvement and extension of existing HF radio links and that progress could best be achieved through direct consultation between the countries wishing to establish service. Further, it was recommended that ADB should announce its readiness to consider the financing of all necessary equipment installations. With respect to general planning of telecommunication development it concluded that this had to start with each country preparing plans of expansion based on existing facilities. At the end of the meeting it was agreed that ADB would take the initiative in getting this work started. We have no information whether any progress has been made.

By concentrating the efforts on building up the national telecommunication systems, expansion and service improvements can be carried out consistent with the technical, organizational and financial capability of each country. Most African countries already operate telecommunication systems which, while small, provide the basis for further expansion. A substantial number of expatriate staff remains in key administrative and training positions in these countries and with limited outside assistance local organizations could effectively prepare programs for expanding local, long distance and internal services. These programs would be similar to those considered for Bank financing in Ethiopia, East Africa and other countries. While the sizes of the programs would vary from country to country the basic planning principles would be the same.

With the support which at present is being given by the U.S. Government to COMSAT's program of extending satellite communications, it seems reasonable to assume that at least a few ground stations will be constructed in Africa regardless of whether they could be justified as measured by the expected financial results. The most likely positions are Addis Ababa, Lagos and possibly Dakar. South Africa is expected to construct its own station near Johannesburg. Against this background no justification could be seen for launching any study similar to the one initiated by Inter American Development Bank to develop the need and justification for construction of satellite ground stations in Latin America.

I believe that the most practical and efficient way to achieve improvements in telecommunications in Africa is to make a concentrated effort to assist individual countries to prepare realistic expansion programs to provide facilities to meet national, regional and international service requirements. For this purpose it would be reasonable to work closely with organizations already involved with telecommunications in Africa, in particular ITU, the British Post Office and the French P & T. As a first step it is proposed to ask the help of these organizations to assemble basic information on the existing telecommunication facilities in each country, present organization, status of current expansion plans and all available data of existing traffic with other African countries and with overseas points. On the basis of this information it would be possible to establish the need for further assistance both for project preparation, organizational support and for eventual financing.

CFinne:hak

cc: Messrs. Hoffman
El Emary
Ripman
Lithgow

FORM No. 60
(2.65)

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

INTERNATIONAL DEVELOPMENT ASSOCIATION

CONFIDENTIAL

1) GM

LOAN COMMITTEE

2) Mr. Woods
You will wish to see.
~~3)~~ 25 JULY

LC/A/66-10

July 25, 1966

NOTICE OF MEETING

A meeting of the Loan Committee will be held on Wednesday, July 27, 1966, at 3:00 p.m. in the Board Room.

AGENDA

Nigeria - Kainji Dam

The Committee will consider the attached memorandum of July 22, 1966, from the Africa Department entitled "Nigeria - The Kainji Project (Niger Dams Authority) and Nigeria's Overall Resource Gap 1966/67" (LC/0/66-51).

John M. Malone
Secretary
Loan Committee

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CONFIDENTIAL

LC/O/66-51

July 22, 1966

LOAN COMMITTEE

Memorandum from Africa Department

NIGERIA - The Kainji Project (Niger Dams Authority) and Nigeria's Overall Resource Gap 1966/67

A. The Kainji Project

1. In July 1964, the Bank made a loan of $82 million for this project whose total cost was at that time estimated at $208 million. The Bank's loan was to meet part of the foreign exchange cost; for the remaining foreign exchange component the Nigerians obtained loans from U.S. AID ($14 million), the United Kingdom ($14 million), the Netherlands ($5.6 million) and Italy ($26.1 million). The Nigerian Government undertook to finance the entire local currency cost out of its own resources and also to provide the necessary funds in case total project cost went up.

2. Until March 31, 1966, a total of $57.6 million have been spent on the project. Of this, the Nigerians have provided $27.4 million; from the Bank loan $16.8 million have been disbursed ($22.9 million by the end of June 1966). Progress on construction is according to schedule and there is every reason to assume that the project will be completed as planned by 1969.

3. Since the conclusion of the financial arrangements for the project in 1964, two events have occurred:

(a) Because of a heavy shortfall in U.S. procurements, the Niger Dams Authority will be able to draw only $2 million out of the $14 million U.S. AID loan.

(b) More important, recent estimates disclose an increase in the cost of the project amounting to about $28 million, $17 million in foreign exchange and $11 million in local currency. This estimate is still tentative; final cost figures should become available during 1967.

The Nigerian Government is therefore faced with the problem of finding at least $40 million more for the completion of the project than was originally anticipated ($12 million which cannot be drawn from the U.S. AID loan and

$28 million on account of expected increases in cost). If the Government were to put up this amount out of its own resources, Nigeria's contribution to the project would rise to about 50%, compared to 40% as originally envisaged. This indicates the need and justification for additional foreign assistance.

4. The Niger Dams Authority has already initiated efforts to secure additional foreign loans to meet the expected $17 million increase in foreign exchange cost. They have requested a supplementary loan from Italy of $8.4 million, which, if granted, would cover the increased cost of goods and services procured in Italy. NDA also proposes to approach Germany, Sweden and Switzerland to provide funds to finance the cost of goods procured from these countries amounting in each case to $2.8 million. If all these loans were forthcoming, NDA would virtually cover the presently expected increase in foreign exchange cost of the project.

5. U.S. AID is studying the possibility of making the unutilized $12 million available, possibly not to finance off-shore purchases but to help cover the local currency expenditures for the project. However, AID strongly expressed the hope, if not the expectation, that the Bank would provide its share of additional financial assistance. It is possible that AID action might depend on the Bank moving first.

6. Based on present cost estimates and assuming that U.S. AID and the other supplier countries come forward with supplementary loans in the amount of $29 million ($12 million from AID and $17 million from the European lenders), an amount of $11 million would remain uncovered. This raises the question whether the Bank could or should at this stage consider a supplementary loan to NDA, an issue which in my opinion, should be judged in the light of Nigeria's overall financial position as described below.

B. Nigeria's Overall Resource Gap 1966/67

7. The 1965 "Economic Report on Nigeria" pointed out the likelihood of a substantial gap in the financing of the country's capital investment program, requiring in part non-project financing during the last two years, 1966/67-1967/68, of the Six-Year Development Plan. The Loan Committee in a meeting on February 7, 1966 decided that, in recognition of this requirement, future Bank lending policy for Nigeria should include financing, in addition to the foreign exchange component of projects, a substantial proportion of their local currency cost, total Bank lending normally not to exceed 60% of the total project cost (LC/M/66-4 dated February 21, 1966).

8. The Nigerian Consultative Group at its Paris meeting in February last (a) endorsed the Nigerian development program as to size and composition and undertook to support it, (b) recognized the likelihood of a considerable gap in the financing of the plan and requested specific estimates for 1966/67 and 1967/68 to precisely determine the size of the gap, (c) took note of the Nigerian appeal for provision of assistance on a non-project basis or the equivalent in financing local cost expenditures beyond that already reflected in existing donor practices.

9. In consultation with the Nigerian Government the Bank has prepared a report "National Development Plan 1962-68; The Problem of Finance for Fiscal Year 1966/67" (AF-47a, dated June 27, 1966) which was circulated to the members of the Consultative Group. This report concludes that Nigeria's resource gap for 1966/67 (April-March) requires a minimum of $53 million of non-project or additional local currency financing.

10. U.S. AID is studying the possibility of making available the $12 million to NDA mentioned in paragraph 5 above because of its desire to find a way to help cover this gap. It is for this reason that AID may consider reimbursing Nigeria for part of the local currency expenditures incurred by NDA during the last and the current fiscal years. At the same time, AID's hope that the Bank would move first is based on the recognition of our role as the Consultative Group's Chairman which, together with the Nigerians, has identified and quantified the nature and scope of the Nigerian resource gap.

11. It is reasonable to assume that the reaction of the European supplier countries to the request for additional loans to NDA will also be guided by considerations relating to the overall resource gap and these countries too will probably wish to see the Bank take the initiative. Therefore, we might strengthen our support of the Nigerian requests by taking immediate action.

12. The Bank's possibilities to provide relief to Nigeria in the short-run are limited since non-project financing has not yet been accepted as a general principle of our lending policy. As to projects in our pipeline, all of them have already been taken into consideration in arriving at the $53 million resource gap for the current fiscal year and offer therefore little or no possibility to make additional finance available. However, the Bank could consider providing Nigeria with additional funds for NDA in the amount of $11 million which represents the presently estimated "deficit" in NDA's financial arrangements (paragraph 6 above). Provided assistance could be arranged in such a way as to permit the Borrower to draw these funds during the current Nigerian fiscal year, the Bank would directly contribute towards narrowing Nigeria's overall resource gap.

13. This suggestion is based on the assumption that the Bank, given the cost increase for the project, would in any case want to provide supplementary assistance in order to maintain the originally established 40% level of its share in the project financing. But while such a decision would ordinarily only be taken at the time when final cost estimates and the additional contributions by other donors are known, the expected resource gap of $53 million for the current fiscal year suggests action now.

14. The Bank could do two things:

(a) Negotiate a supplementary loan of $11 million for NDA. Given the fact that NDA for the time being has enough foreign loans to meet foreign exchange payments, an additional loan from the Bank would have to be for local currency expenditures expected to be made during the fiscal year starting April 1, 1966. A loan in this amount would, according to present estimates, bring the Bank's total contribution back to 40%. However, we cannot be certain at this stage that $11 million would cover all the additional assistance the Bank may be requested to provide before the project is completed.

(b) Permit the Borrower to draw on the existing loan the same amount for the same purpose. This would be done in anticipation of a supplementary Bank loan, probably sometime next year, when firm figures on project costs and supplementary financial contributions from other sources are available.

15. Either solution would enable the Bank to disburse additional funds during the current fiscal year, would demonstrate to the Nigerians and the members of the Consultative Group our willingness to take the initiative in providing relief and would thereby strengthen the case for U.S. AID to make available the unutilized $12 million and for Italy, Germany, Sweden and Switzerland to grant loans of a total of $17 million.

C. Recommendations

16. I recommend that:

(a) the Committee confirm the need for urgent action on the part of the Bank to assist Nigeria in narrowing its overall resource gap for 1966/67 and decide which of the two alternatives outlined in paragraph 14 above should be implemented;

(b) the Bank actively support the Nigerian requests already made or to be made for supplementary assistance for the Kainji Project by U.S. AID, Italy, Germany, Sweden and Switzerland.

A. G. El Emary
Director

MEMORANDUM

from

AFRICA DEPT.

FORM No. 58 INTERNATIONAL DEVELOPMENT ASSOCIATION | INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT | INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

TO: Mr. George D. Woods

DATE: June 22, 1966

FROM: J. Burke Knapp JBK

SUBJECT: Lending in "Black" Africa

Out July 18

You will be interested to see the attached up to date statement by the Africa Department regarding their expectations of lending in "Black" Africa during the period before the Annual Meeting. We shall press forward on this program as rapidly as possible.

Attachment

29 Tunis closing date 6/30/66
5 small dam
Sept '65

Form No. 57

INTERNATIONAL DEVELOPMENT ASSOCIATION | INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT | INTERNATIONAL FINANCE CORPORATION

Mr. Woods

OFFICE MEMORANDUM

TO: Mr. J. Burke Knapp

DATE: June 22, 1966

FROM: J. H. Williams

SUBJECT: Lending in "Black" Africa

The following is a revised forecast, as of today, of Bank loans and IDA credits to countries South of the Sahara which are likely to come to the Board prior to the Annual Meeting:

A. July/August	$ million Bank	IDA	Notes
Malagasy (roads)		10.0	Negotiations concluded.
Nigeria (NIDB)	6.0		Awaiting signature of Government loan.
Zambia (roads)	17.5		Negotiations concluded.
East Africa (telecommunications)	13.0		Negotiations concluded ad referendum.
Kenya (education		7.0	Negotiations completed.
Malawi (roads eng.)		0.5	Negotiations expected next week.
Mali (railways)		9.1	Negotiations in progress.
Senegal (railways)		9.0	Negotiations start June 27.
Nigeria (cocoa)	6.8		Timing dependent on settling new federal-regional relation.
Uganda (smallholder tea)		3.4	Negotiations concluded. Presentation to Board dependent on government appointment of project agency senior staff.
Total	43.3	39.0	

The following additional operations have a somewhat smaller, although still reasonable chance of going to the Board before the Annual Meeting:

B. August/September	Bank	IDA	Notes
Cameroon (CAMDEV)	7.0	11.0	
Congo (Brazz.) (Potash)	30.0		Dependent on action by EIB.
Nigeria (power distrib.)	13.0		
Kenya (agr. roads)		6.0	Appraisal report in preparation.
Kenya (agr. credit)		7.9	Awaiting supplementary information for completion of appraisal report.
Nigeria (Eastern Region palm oil)	10.0		Appraisal report in preparation.
Liberia (roads)		3.0	Awaiting supplementary information for revision of appraisal report.
Total	60.0	27.9	
TOTAL (A + B)	103.3	66.9	

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

INTERNATIONAL DEVELOPMENT ASSOCIATION

INTERNATIONAL FINANCE CORPORATION

OFFICE OF THE PRESIDENT

July 6, 1966

Mr. Woods 7/7
Reference your query below:

	BANK	IDA
	(in millions of $)	
Uganda Tea Development		3.4
Nigeria Cocoa Development	7	
Nigeria - NIDB	6	
Malagasy - roads		10
East Africa - telecommunications	13	
Zambia - roads	17.5	
Kenya - education		7.0
	$43.5	$20.4

Grand total
Bank + IDA = $63.9

G. C. Wishart

Out July 22

FORM No. 75
(2-60)

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

INTERNATIONAL FINANCE CORPORATION

INTERNATIONAL DEVELOPMENT ASSOCIATION

4

ROUTING SLIP

Date July 1, 1966

NAME	ROOM NO.
Mr. Knapp	
Mr. Woods	

	To Handle		Note and File
	Appropriate Disposition		Note and Return
	Approval		Prepare Reply
	Comment		Per Our Conversation
	Full Report		Recommendation
	Information		Signature
	Initial		Send On

REMARKS

GW
What is total for Bank
" IDA
" both

7/5

From
A. G. El Emary

Form No. 57

INTERNATIONAL DEVELOPMENT ASSOCIATION | INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT | INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

TO: Mr. George D. Woods (through Mr. J. Burke Knapp) DATE: June 30, 1966

FROM: A. G. El Emary AGElE

SUBJECT: Africa Department - Pending Bank Loans and IDA Credits

1. You referred during last week's Senior Staff Meeting to several loan and credit operations in Africa, the presentation of which to the Executive Directors has been delayed by various difficulties, mainly administrative weaknesses in the recipient countries. I now wish to give you a brief account of these lending operations, together with information on steps which we have taken or intend to take to help the governments concerned to overcome their difficulties.

2. The following are eight loan or credit operations which I had originally expected that the Executive Directors would consider before the end of the current fiscal year:

(a) Uganda Smallholder Tea Development ($3.4 million - IDA): Simultaneous negotiations by us and by the Commonwealth Development Corporation (which will be lending for the same project) were substantially completed in Washington in October/November 1965. Among a few technical questions which still remain to be settled is the appointment of the newly-established project agency's key staff. The Government's action has been delayed partly because of the recent constitutional crisis in Uganda. Mr. Darnell (Projects Department) visited Uganda last week to speed up the Government's action. Mr. Tolley (Africa Department) will be visiting Uganda within about two weeks for any necessary further follow-up.

(b) Nigeria Cocoa Development ($4.6 million for Western Nigeria, $2.4 million for Eastern Nigeria - Bank): The negotiations for both loans were completed in December, 1965. It has been agreed that both the Western and Eastern Nigerian Governments would appoint suitable project coordinators. Action on this matter was delayed partly because of the revolution in Nigeria. We have recently recommended to the Government an experienced project coordinator and are actively looking for another. Following a recent Decree to establish a unitary Constitution for Nigeria, a legal question has arisen regarding the competence of the Regional Governments as separate legal entities to sign Project Agreements with the Bank. Mr. Williams went into this question in Lagos three weeks ago and we are following up his conversations in writing.

(c) Nigeria, Nigerian Industrial Development Bank ($6.0 million - Bank): The negotiations were substantially completed in February, 1966. The points which required action were: (1) selection of a suitable advisor to NIDB, (2) satisfactory arrangements between the Nigerian Government and NIDB on a government loan of N£ 2.0 million to NIDB, and (3) legal powers for the Nigerian Government to guarantee the proposed Bank lending to NIDB. Mr. Mathew (IFC) will arrive in Nigeria during the second half of July as advisor to NIDB. Also, action is being taken on the proposed government loan to NIDB. We still have some questions on a recent Decree which was issued to give to the Government the necessary powers for guaranteeing the Bank loan. Mr. Williams discussed the outstanding NIDB issues in Lagos three weeks ago and we are following up in writing.

(d) The Malagasy Republic, roads ($10.0 million - IDA): The negotiations were completed in April 1966. Under the Malagasy Constitution, the Government needs legislative authority to be able to sign the credit documents. Two weeks ago, we have been informed of the Government's submission of a bill to the Parliament for this purpose, but - despite reminders - we have not yet been informed of the passage of the bill. We are actively pursuing the matter. I plan to visit the Malagasy Republic in August.

(e) East Africa, telecommunications ($13.0 million - Bank): The negotiations were substantially completed during the first half of May 1966. We are now awaiting the approval of the draft loan documents by the borrower (East African Common Services Authority - EACSA) and by the Governments of Kenya, Tanzania and Uganda. Resolutions will be necessary by the Parliaments of Kenya and Uganda to authorize the guarantee of the loan. The Bank also expects to receive assurances that the posts and telecommunications will continue as a common service for East Africa (this was recently recommended by the Philip Commission). We are presently writing to all interested parties on these requirements. Mr. Tolley will also be available during the second half of July for discussions in East Africa on these points.

(f) Zambia, roads ($17.5 million - Bank): The negotiations were completed during the second half of May 1966. We are now awaiting action by the Zambian Parliament to authorize the proposed loan. The Parliament will not assemble until mid-July and, during the negotiations, the Zambian Finance Minister said that the Parliamentary action may not be taken before mid-August. I plan to visit Zambia in August.

(g) Kenya, education ($7.0 million - IDA): The negotiations were concluded on June 10, 1966. During his visit to East Africa, Mr. Tolley will explain our requirements, with a view to speedy action by the Government.

3. I might note that some of the governmental actions specified above are of the type which, until recently would have been treated as conditions of effectiveness. While our requirement that these now be completed before signing has in fact delayed their presentation to the Executive Directors I would expect that, when the governments have complied with the foregoing requirements, the effectiveness of the loans or credits concerned will not pose any particular difficulty.

4. That being said, I share your concern about the long delays in getting action, whether required for signing or for effectiveness, and I propose we take the opportunity of the African Caucus to bring out very clearly the extent to which speedy action on loans and credits is in the hands of the African members themselves.

cc. Mr. Knapp
Mr. Aldewereld/Mr. Ripman
Mr. Broches
Mr. Cavanaugh
Mr. Cope

The From
ROOSEVELT
"Pride of the South"
New Orleans, La.

MEMO

S

I think I put
a paper forward
for 2 weeks or so
last Thurs or Fri
on loans to Africa
Pls attach this to
that

[illegible] 7/9

Form No. 57

INTERNATIONAL DEVELOPMENT ASSOCIATION | INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT | INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

TO: Mr. J. Burke Knapp

DATE: June 13, 1966

FROM: A. G. El Emary

SUBJECT: IDA Lending Program for 1966/67 (first half)

Following our discussions today on the above, I am sending you attached our forecast of the IDA credits by the Africa Department during the first half of the coming fiscal year. I indicate in the margins the present status of each lending operation.

I might add that, because of some delay in the completion of the roads credit to the Malagasy Republic and of the smallholder tea credit to Uganda, our Expected Results for the current fiscal year will be $24.3 million (rather than $38.0 million given in your memorandum of June 8, 1966 to Mr. Woods).

Ack July 8

(Knapp live Marker)

6/16

Africa Department - Forecast of IDA Credits
First Half of the 1966-67
Fiscal Year

Country	Project	$ Million	Present Status
Cameroon	Plantation in West Cameroon (CAMDEV)	11.0	Project appraised and major points agreed with Government; Loan Committee by mid-July 1966, negotiations in August.
Ethiopia	Fourth Highway	15.0 1/	Appraisal visit in September.
Kenya	Education	7.0	Negotiations completed; Government approval of credit documents expected by end of June.
	Agricultural roads	6.0	Appraisal report awaited; Loan Committee in July.
	Agricultural credit	7.9	Project appraised; brief visit in early July is scheduled to clarify two project points.
Liberia	Roads	3.0	Reappraisal mission in field; negotiations expected in August.
Malagasy	Roads	10.0	Negotiations completed; Government has to pass act to authorize signing; expected any time.
Malawi	Roads (engineering)	0.6	Project appraised; negotiations expected late in June or early in July.
	Education	6.5	Appraisal report being drafted; negotiations expected in October.
Mali	Railways	9.1	Negotiations will start June 20.
Senegal	Railways	9.0	Negotiations will start June 27.
Tunisia	Education	13.0	Appraisal report expected this week; Loan Committee late June; negotiations in July.
Uganda	Smallholder tea	3.4	Negotiated in November 1965; Government's action to appoint the Tea Authority's senior management is awaited; brief visit scheduled 3rd week of June to discuss outstanding points.

1/ In addition to a possible Bank loan of $15 million or more (to cover total foreign exchange costs).

Country	Project		$ Million	Present Status
Uganda (cont.)	Education		10.0	Appraisal report ready; Loan Committee end of June or early July.
	Roads		4.0	Awaiting completion of appraisal report; Loan Committee probably in August.
		TOTAL	115.5	

June 13, 1966

Form No. 57 INTERNATIONAL DEVELOPMENT ASSOCIATION | INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT | INTERNATIONAL FINANCE CORPORATION

N

OFFICE MEMORANDUM

TO: Mr. J. Burke Knapp Mr. Woods

DATE: May 13, 1966

FROM: J. H. Williams

SUBJECT: Lending in "Black" Africa

7/9

Ret June 9

The following is a forecast, as of today, of Bank loans and IDA credits to countries South of the Sahara which are likely to come to the Board prior to the Annual Meeting:

A.

		$ million Bank	$ million IDA	Notes
June	Malagasy (roads)		10.0	Negotiations concluded.
	Nigeria (NIDB)	6.0		Awaiting signature of Government loan.
	Zambia (roads)	17.5		Negotiations start May 16.
July	East Africa (telecommunications)	13.0		Negotiations concluded ad referendum.
	Kenya (education)		7.0	Appraisal report completed.
	Malawi (roads eng.)		0.75	Appraisal report completed.
	Mali (railways		9.1)	Negotiations expected early June
	Senegal (railways)		9.0)	
	Nigeria (cocoa	6.8		Timing dependent on settling new federal-regional relation.
	Uganda (smallholder tea)		3.4	Negotiations concluded. Presentation to Board dependent on government appointment of project agency board.
	Total	43.3	39.25	

The following additional operations have a somewhat smaller, although still reasonable, chance of going to the Board before the Annual Meeting:

B.

		$ million Bank	$ million IDA	Notes
Aug.	Uganda (education)		10.0	Subject to confirmation of economic performance.
	Congo (Braz.) (Potash)	30.0		Dependent on action by EIB.
	Malagasy (education)	4.3		
	Nigeria (power distrib.)	13.0		
Sept.	Kenya (agr. roads)		6.0	Appraisal report in preparation.
	Kenya (agr. credit)		8.0	Appraisal report in preparation.
	Nigeria (Eastern Region palm oil)	10.0		Appraisal report in preparation.
	Total	57.3	24.0	
	TOTAL (A+B)	100.6	63.25	

FORM No. [illegible]5
(2-60)

INTERNATIONAL FINANCE CORPORATION

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

INTERNATIONAL DEVELOPMENT ASSOCIATION

ROUTING SLIP	Date 5/16/66

NAME	ROOM NO.
Mr. Wishart	1220

	To Handle		Note and File
	Appropriate Disposition		Note and Return
	Approval		Prepare Reply
	Comment	x	Per Our Conversation
	Full Report		Recommendation
	Information		Signature
	Initial		Send On

REMARKS

From

J.H.Williams

Mr. J. Burke Knapp April 11, 1966

J. H. Williams

Lending in "Black" Africa

Further to my memorandum of March 11, 1966 on the above, I present below a revised list of a forecast of Bank loans and IDA credits to countries South of the Sahara which are likely to come to the Board prior to the Annual Meeting:

A.

		$ million		Notes
		Bank	IDA	
May	Malagasy (roads)		10.0	
	Nigeria (NIDB)	6.0		
June	Liberia (roads)		3.0	
	East Africa (telecommunications)	13.0		Less any part taken by ADB.
	Zambia (roads)	17.5		
	Mali (railways)		9.0	
	Senegal (railways)		7.0	
	Uganda (smallholder tea)		3.4	Timing dependent on government appointment of project agency board.
July	Kenya (education)		7.0	
	Malawi (roads eng.)		0.75	
	Sudan (land clearance)	3.0		
	Nigeria (cocoa)	6.8		Timing dependent on settling new federal-regional relation.
	Total	46.3	40.15	

The following additional operations have a somewhat smaller, although still reasonable, chance of going to the Board before the Annual Meeting:

B.

		$ million		Notes
		Bank	IDA	
Aug.	Uganda (education)		10.0	
	Uganda (roads)		4.0	
	Congo(Braz.) (potash)	30.0		
	Malagasy (education)	4.3		
	Nigeria (power distrib.)	13.0		
Sept.	Kenya (agr. roads)		6.0	
	Kenya (agr. credit)		8.0	
	Cameroon (CAMDEV)	8.0	11.0	
	Total	55.3	39.0	
	TOTAL (A + B)	101.6	79.15	

OHCalika:mk

cc. Mr. Hilken

OFFICE MEMORANDUM

TO: Files

DATE: September 22, 1966

FROM: M. P. Benjenk

SUBJECT: Bank Lending to Algeria

A meeting was held in Mr. Knapp's office on September 20, 1966, to discuss a paper prepared by the Africa Department proposing a Bank position with regard to a possible lending program for Algeria. The meeting was attended by Messrs. Knapp, Aldewereld, Friedman, Broches, Cope, El Emary, Kamarck, Avramovic, Hoffman, Williams, John King, Edelman, Roulet and Benjenk. The discussion dealt with two principal subjects: (a) the creditworthiness and the performance of Algeria, and (b) the nationalization of foreign property by the Algerian Government.

Creditworthiness and Performance

With regard to creditworthiness, the meeting took note of the fact that Algeria's indebtedness was at the present time rather low for a developing country, i.e. debt service did not amount to more than 3 to 4 percent of total exports. With the increased revenues from oil and subject to reasonable progress in general economic policies, debt service was not likely to be a real problem for Algeria even if the final settlement of claims and counterclaims with France led to some net charge on Algeria's foreign exchange earnings in the future. It was remarked, however, that one should not accept too readily the assumption that French and Algerian claims against each other would cancel each other out and leave only a minor debt burden upon Algeria. Further inquiries to the French authorities with regard to this question might be necessary.

It was also noted that with regard to Algeria's recent performance in the field of public finance a favorable point was the fact that Algeria's recurrent budget, which before independence was largely financed by the metropole, was now fully covered by Algeria's own earnings.

It was, however, generally agreed at the meeting that, notwithstanding the progress which Algeria had made since independence with regard to public financial policies, it should be made clear to the Algerian delegation in the forthcoming discussions with it that a number of economic conditions would have to be met before the Bank could actually make a loan to Algeria. These conditions would be based on the many recommendations for improvement in public economic policy contained in the economic report. These concern the need for increased public savings, limitations on the growth of ordinary expenditures and of transfers and subsidies to public enterprises and individuals. In these discussions with the Algerians, it would have to be stressed that Algeria needed to make a considerable effort during the next few years to generate a surplus and make appropriate arrangements to use that surplus for the purposes of sound economic development. With regard to good performance in the various sectors of the economy, the Bank would not expect to go too deeply into each sector, unless this was relevant for a particular loan decision. It would, however, wish to assure itself in a general way that the situation in the principal sectors was not such as to endanger general economic stability. Finally, those present agreed that there would also have to be improvement in the treatment of foreign businesses at present operating in Algeria so that the investment climate improved sufficiently to attract new capital.

The difficulty, however, in explaining the Bank's position to the Algerian delegation in other than general terms was felt to be that the Bank is not yet in a position to express in precise terms the targets by which it would judge whether Algeria was making satisfactory progress in the management of the economy. This definition would require a great deal of economic work both by the Bank and the Algerians in the next few weeks and months and this should be explained to them. It was felt, however, that the Algerians' hurry to have the Bank's views on lending should not deter the Bank from proceeding with working out the criteria by which to judge Algeria's economic performance.

The next step along this road would be to obtain Algeria's official reactions to the economic report. If, as was expected, this reaction was generally favorable, the Algerian delegation could be informed of the Bank's general willingness to study projects submitted by Algeria, but at the same time the delegation should be informed that more precise guideposts as to economic performance in the areas mentioned above would have to be worked out jointly in the next few months. The Bank would therefore continue to follow closely the economic performance of Algeria, which would have to be discussed by the Economic Committee in the usual way before any loan was made.

The meeting agreed that in the Bank's assessment of Algeria's economy, emphasis should be laid on the necessity to avoid that this economy should come to be based too exclusively on oil and thus neglect the development of other sectors or the setting-up of an efficient administration for economic development.

Nationalization of Foreign Property

The meeting agreed that this was an extremely complicated question which needed a great deal more investigation on the part of the Bank before a precise position could be presented to the Algerian authorities as to the Bank's requirements in this area. It was therefore decided that the Bank doctrine on these matters should be put to the Algerian delegation in a general way, bearing in mind the principles listed below.

The meeting agreed on the basic premise of the paper presented to it, namely that distinctions should be made between the various categories of nationalizations which have taken place since independence and, in particular, that the Bank should leave to bilateral negotiations those cases which had taken place in the immediate post-independence period. It was agreed also that with regard to more recent nationalizations of French properties the General Counsel would immediately sound out the French Executive Director as to whether these would also be brought within the scope of the general Franco-Algerian discussions, and might thus possibly be excluded from Bank consideration. In this connection it was pointed out that, while the Bank would take into account the views of the French Government on such matters, it would not be necessarily bound by them. In any case, the Bank would wish to be able to inform French firms approaching it of the position taken by the French Government. It was agreed that the Bank's usual doctrine would apply to compensation for non-French owners of nationalized properties and that this might, in some cases, include substantial minority shareholders in French companies.

It was agreed that the Algerians should be urged to proceed immediately to take steps towards a settlement of some of the outstanding cases so that, when the time came to make a loan to Algeria, progress towards settlement should be clearly apparent.

With regard to Algerian treatment of foreign oil companies, it was agreed that this question, unless there was a breach of a concession by the Algerian Government - of which there was no evidence so far, was not to be assimilated with matters regarding compensation. It was more a matter of preference being given to some companies rather than to others. The Algerians should be questioned on their policies in the general discussion that would take place in regard to the treatment of foreign capital generally, but settlement of such quasi-commercial disputes should not become a condition of the Bank's lending to Algeria.

Lending Policy

Subject to the conditions stated above which would have to be satisfied before any loan could be made, it was agreed that the Bank should take under consideration projects which the Algerian Government had submitted or would submit to the Bank. This applied in particular to the gas project and possibly to projects in the field of agriculture.

With regard to the gas project, it was particularly stressed that the Bank should not finance a major share of this project but should act as a catalyst to ensure that a sound project was being shaped, which would in turn help draw private and other capital into the project. It should be made clear to the Algerians that borrowing from the Bank for this project was not an alternative to enlisting the financial support of private sources and that the Bank would not make up shortfalls of potential private capital discouraged by Algerian policies.

There was a general feeling at the meeting that it might be better for the Bank to play a more active part in the conventional sectors of the Algerian economy, since through the leverage provided by loan discussions a great deal of necessary improvement could be brought about in these sectors, and a somewhat less important role in the oil and gas sector where a great deal of money should be available from private sources.

With regard to the orders of magnitude involved, it was agreed that the Algerians should not be left in any doubt that the Bank's contribution would be much more modest than some of the figures which had been mentioned informally by the Algerians either with regard to the gas project or with regard to agriculture. With regard to the gas project, a maximum figure of $50 million was thought to be appropriate, whereas $25 to $30 million a year in the conventional sectors was the maximum considered possible in the next two years, in the light of what is now known of the state of Algerian project preparation. If, contrary to what is expected, projects could be got ready to meet Bank standards in less time than we believe, a somewhat larger figure should not be excluded. In any case, it was felt that the Bank's involvement in Algeria should be gradual, if only because one had to bear in mind the effect outside the Bank of our activities in a country like Algeria. It was agreed, however, that no exact figures would be mentioned to the Algerian delegation at this stage.

MPBenjenk/mct

cc Messrs. Woods
Knapp
Aldewereld
Friedman
Broches
Cope
El Emary
Kamarck
Avramovic
Hoffman
Williams
John King
Edelman
Roulet
Benjenk

September 16, 1966

Bank Lending to Algeria

The Avramovic mission report is now under consideration by the Algerian Government. During his recent visit to Algeria to present the report, Mr. Avramovic found a general readiness to give it serious consideration and all the signs are that the Algerian delegation headed by the Minister of Finance which will be visiting the Bank as from September 21 to discuss the report will confirm substantial agreement on the findings and recommendations. If this is indeed so, the Algerian delegation, as indicated in letters to Mr. Woods and Mr. Knapp of August 27, will expect us to state the general policy conditions under which the Bank will be prepared to lend to Algeria.

Specifically we shall be pressed for a statement of our attitude to lending for large gas and petrochemical projects of international importance on the one hand and domestic projects, particularly in agriculture, on the other. This note discusses the major issues involved in possible lending and makes recommendations on the position the Bank might take. These issues fall under two broad heads: (a) the problem of the "contentieux" concerning foreign-owned properties nationalized by Algeria, and (b) creditworthiness and performance.

A. Nationalization of foreign property

Large-scale nationalizations have taken place in Algeria since the Proclamation of Independence in 1962. These include farms, apartment buildings, hotels, commercial businesses as well as industries and mines. As far as we know, no compensation has been paid for any of the properties nationalized. However, a broad distinction can be made between, on the one hand, those seizures which took place in the immediate post-independence period, many of them resulting from the abandonment by French owners of their properties in Algeria, ("les biens vacants"), and on the other hand nationalizations after 1963 for which compensation was promised in many cases but neither discussed with the former owners nor paid since. With regard to the first group of properties, one can reasonably argue that the Bank should disregard them, particularly in view of the bilateral discussions which are taking place between the French and Algerian Governments on this issue and on the settlement of extremely complex claims and counterclaims by France and Algeria on each other dating back to the pre-independence and the immediate post-independence period. Our understanding is that the French Government would have no objection to the Bank taking such an attitude.

The more recent nationalizations cannot so easily be swept under the rug, and in some cases (the mines nationalized in May 1966, the properties of the Hachette publishing firm and of the Bastos tobacco factories), the Bank has received representations from the owners. It is very probable that the Algerian Government means what it says about compensation, but may well assume that it can,for properties nationalized since 1963,include compensation in its overall settlement with the French Government.

If the French Government were to consider the nationalizations of the French properties concerned as a matter to be settled between Algeria and France without involving the Bank, we would be justified in treating it as an intergovernmental issue that should not in itself constitute a bar to lending. Thus far the French Government has shown extreme tolerance of actions by the Algerian Government, has continued aid and has given no sign that it would not favor Bank lending. It is suggested that we ascertain from the French Government whether it does indeed consider that these disputes fall into the area of intergovernmental negotiations between the two countries and, if so, whether the French Government would authorize the Bank to say so in response to approaches by private French owners.

An affirmative answer from the French Government would only take care of the problem posed by the nationalization of properties which are French-owned, including those companies in which there are minority United States, Belgian and Moroccan interests, since it can be argued that these minority shareholders should share the fate of the French companies of which they are a part.

The Bank's doctrine with regard to compensation would however clearly apply to companies owned by non-French interests. We have not so far been approached by any of these companies, and indeed, do not necessarily know about all the cases involved. The question that arises would be whether we should raise the matter with the Algerians as one requiring settlement before the Bank can lend to Algeria, or as requiring substantial signs of progress leading to a settlement. Since the Tunisian case (of a loan to the new owner of nationalized properties) does not arise, the latter approach would be appropriate.

Another matter which, while not strictly speaking falling under the compensation heading, may need discussions with the Algerian Authorities, is their treatment of American oil companies operating in Algeria, which have complained to the Bank of discriminatory taxation and treatment as compared with French-owned companies. This issue is complicated by the fact that the discrimination arises at least in part from the Franco-Algerian oil agreement negotiated in 1965, and hence subsequent to the time at which the American companies took up their concessions. It is recommended that any discussions on this type of controversy be placed in the context of Algerian policy towards private capital (see below).

B. Creditworthiness and Performance

With regard to creditworthiness in the narrow sense, i.e. ability to repay, it could be said that Algeria in 1966 can be considered as creditworthy for conventional projects of amounts up to $25 to $30 million a year, over the next two years on the assumption of moderate improvements in financial management, on which assurances would be required (see below).

This creditworthiness is based on a very low external debt which is not expected to increase considerably even if the settlement of the Franco-Algerian "contentieux" leads to some repayments by Algeria to France and on prospective doubling of oil production by 1970 which will result from full operation of the third pipeline (already completed) and construction of the fourth pipeline now under consideration. Bank lending in these amounts ($25-30 a year) would probably, in any event, exhaust the ability of the Algerians to prepare projects in the conventional sector to Bank standards for the immediate future.

Lending in the much larger amounts that would be required for projects such as liquefaction would be possible only on the basis of external guarantees. However, realization of such projects could in turn make Algeria creditworthy for larger conventional lending in the future, subject also to reasonable progress in general economic policies.

There are two minimum requirements for a positive assessment of economic performance in Algeria: improved public savings, and improved treatment of foreign private capital. Both of these were stressed in the recent economic report on Algeria.

With regard to the first, the economic report has brought out that the present contribution of Algerian public savings to the investment program is negligible and possibly negative. Given the increased revenue expected from oil, creation of some surplus should not be too difficult, but it would nevertheless be necessary for the Algerian Government to establish a specific target for a government surplus and to provide the Bank with a statement as to the means of achieving it. These means should include limitations on the growth of ordinary expenditures and on transfers and subsidies to public enterprises and individuals. In addition, the Government should give to the Bank an indication of plans for the timely completion of the fourth oil pipeline now under consideration because of its important revenue implications.

With respect to the treatment of foreign private capital, the Algerians have asserted that they are anxious to attract foreign capital into Algeria and offer guarantees with respect to transfers of profits, taxation, etc. At the same time, the Algerians have been unwilling to extend any facilities to firms which are already established in Algeria and this includes the major part of existing industries which, we understand, are not allowed to transfer profits abroad to the parent firms concerned. The Economic Mission urged the Algerians to stop making an arbitrary distinction between new firms and existing firms since potential investors are obviously influenced by the treatment extended to businessmen or industrialists who are already on the spot. Clarification of the Government's position in this area should be obtained and also with regard to the treatment of U.S. oil companies which have complained to the Bank about discriminatory treatment.

C. Lending Policy.

A satisfactory understanding on the "public savings" group of measures and on the residual compensation issues on which Algerian action is required should be the necessary conditions of any lending. These should also be sufficient conditions for lending to the oil and gas sector for major "enclave" projects of international interest or with international participation. They would probably not be sufficient for conventional lending, in the sense that additional performance improvements in specific sectors may be necessary. In some sectors, performance criteria may be no more than normal project criteria. In others, agriculture for example, action may be required on a broader front to create the context within which a viable project could be set up.

Subject to a positive attitude by the Algerian Government on compensation and on public finance, it is recommended that the Bank should continue its study of the gas liquefaction project already submitted to the Bank, with the object of helping the Algerian authorities to work out a viable operation permitting the maximum possible association with foreign partners. There appear to be several gas projects under discussion at this time between various parties, the effective execution, and the economics, of which could be influenced by decisions taken on the project submitted to the Bank, and vice versa. We should therefore insist that Bank consideration of the present project would involve reviewing the competing or complementory projects as well, to avoid our getting locked into a less than fully satisfactory proposal.

It would be basic to a viable gas project that it be so organized as to make possible adequate guarantees and security for the Bank and other lenders, whether through sales contracts, set-asides, or positive pledges. The Bank should also impress upon the Algerians that we expect them to exert their maximum efforts to secure the largest possible amount of foreign capital for their project. We should also make clear that, while we may have accepted the Algerians' preferences regarding the general pattern of ownership, it does not follow that we are in any way committed to making up the balance of any capital which Algeria's partners and other private interests are reluctant to supply because of Algerian insistance on points which cannot be considered fundamental to the concept of the project and/or because Algeria's policies and practices affecting private investment in general remain unsatisfactory. This point should be brought home by explaining that the Bank expects to contribute only a part of the financing necessary. (This could still mean anything up to $100 million).

We should also inform the delegation that we are willing to start looking at conventional projects although, as noted above, they should be warned that there may be additional performance criteria and that the pace of lending will be determined by the rate at which acceptable projects can be prepared.

D. Conclusions

The above has abstracted from what may broadly be called the political risks of operating in Algeria, i.e. the considerable disorganization within the country, a fragile administration that depends heavily on a few able people, uncertainty about the stability of the regime itself and uncertainty about its objectives. But Algeria presents a unique case. It faces exceptional problems, since the tasks of reconstruction and of development have to be faced at the same time. Both tasks are deeply affected by the departure of a million Europeans, and with them management, markets, and the administrative corps of the country. The major asset of the country is moreover of international importance and its proper management of international concern. All these factors justify the attempt to come to grips with Algeria sooner than is really comfortable.

The proposed lending approach is intended to combine the tolerance that the above factors would justify with a reasonable firmness about major issues that lie squarely within the Government's control and ability to act. They combine a readiness to accept broadly the Government's central policies on public ownership with pressure to secure better treatment of private foreign investment. They combine operations of purely domestic interest with operations of possible interest to a number of important member countries.

In summary, what is proposed is as follows:

(i) Any lending to Algeria requires as prior conditions:

(a) confirmation to the Bank by the French Government as to the range of compensation issues that will be brought within the scope of a general settlement between the French and Algerian Governments, and hence specifically excluded from Bank concern;

(b) an undertaking by the Algerians that they will start negotiations on compensation for French owners not covered by (a) and for non-French owners of nationalized properties;

(c) satisfactory undertakings by the Algerian Government on public financial policy and management, as well as with respect to the treatment of private foreign investment.

(ii) (a) The conditions under (i) above would allow the Bank to take under consideration the gas liquefaction project already submitted;

(b) lending in conventional sectors may require additional sector performance criteria, to be determined in each case as and when projects come up for consideration;

(c) our approach to the gas project should be directed to ensuring a project that will bring about the maximum international support and involve the Bank in financing only a relatively small part, say not more than one third. Any such lending would in turn be subject to satisfactory security arrangements.

(iii) Whether or not the gas project goes through, the Bank would be justified in undertaking a modest lending program in conventional sectors within the limit of $25-$30 million over the next 12-18 months, to the extent that the availability of projects allows. Conversely, consideration of the gas project would not depend on performance in conventional sectors.

Africa Department

GDW: Please add to briefing for Algeria. Thx.-

S
9/23

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

INTERNATIONAL DEVELOPMENT ASSOCIATION

INTERNATIONAL FINANCE CORPORATION

OFFICE OF THE PRESIDENT

September 16, 1966

9/17

Mr. Woods:

I am not sure if you have seen attached exchange with Algeria.

You will note the invitation to yourself to visit Algeria contained in the incoming letter. This does not seem to have been replied to. Perhaps the best way to deal with this is when you meet with the Algerian delegation.

GW

GCW

G- put
am Mtg
Folder
Mtg Sat 9/24
9:30 A.M.

September 6, 1966

His Excellency
Ahmed Kaid
Minister of Finance and Planning
Algiers, Algeria

Dear Mr. Minister:

Thank you for your letter of August 27 in connection with the report of the Bank's Economic Mission to Algeria. In Mr. Woods' absence, I should also like to acknowledge your letter to him on the same subject.

I am happy to read from your letter that you consider that our report can be a useful tool for decision-making with regard to your economic policies and I shall look forward to hearing your more detailed comments at the time of the Annual Meeting.

With regard to your suggestion that an Algerian delegation should discuss, in advance of the Annual Meeting, matters relating to the economic report and to possible investment projects, I have asked Mr. Williams, in the absence of Mr. El Emary, to write to you about specific arrangements.

With best wishes,

Sincerely yours,

J. Burke Knapp
Vice President

cc: Mr. Friedman
Mr. Wishart 16 SEP

cc: Mr. Avramovic
Mr. Williams
Mr. Edelman
Mr. de la Renaudiere
Mr. Benjenk

MPBenjenk/JHWilliams:mct:gb

September 6, 1966

His Excellency
Ahmed Kaid
Minister of Finance and Planning
Algiers, Algeria

Dear Mr. Minister:

I refer to the suggestion in your letter of August 27 to Mr. Knapp that an Algerian delegation should, in the days preceding the Annual Meeting, discuss with us their reactions to the Bank's economic report on Algeria and questions relating to the financing of development projects in your country.

We would welcome the opportunity for such discussions and will do our best to arrange for them during what is inevitably an extremely busy week for all members of the staff. However, since I believe that we can cover a great deal of ground in the space of two days by arranging a series of discussions with the individual most directly concerned with various issues, may I suggest to you the following timetable? Mr. El Emary and I would be very happy if you and your colleagues would lunch with us at 1:00 o'clock on Wednesday, September 21, and have a preliminary meeting of a general kind after lunch. There could then be a series of meetings on the 22nd and 23rd at which Mr. Avramovic and Loan Officers and Economists from the Africa Department could be present. Mr. Avramovic has a long-standing engagement in Europe between September 19 and 21 but will be back in the Bank on the 22nd. Additional arrangements will be made for you to see Mr. Woods and Mr. Knapp during your stay in Washington, possibly on the afternoon of September 22. I hope that this timetable is suitable for you and will be glad to have your confirmation.

Sincerely yours,

J.H. Williams
Deputy Director
Africa Department

cc: Mr. Friedman, Mr. Wishart

cc: Messrs. Knapp, Avramovic, Edelman, Benjenk, de la Renaudiere

MPBenjenk/mct/gb

TRANSLATION

ALGERIAN DEMOCRATIC AND POPULAR REPUBLIC

MINISTRY OF FINANCE AND THE PLAN

Algiers, August 27, 1966

Mr. George D. Woods
President of the
International Bank for Reconstruction
and Development
Washington, D. C.

Dear Mr. President:

The Report on the economic growth of Algeria was handed to us by Mr. Avramovic, head of the Mission which you sent to Algiers at our request last March and April.

First of all, allow me to thank you personally for the speed with which the Mission carried out its task and for the qualities of intelligence, understanding and goodwill shown by Mr. Avramovic in establishing the diagnostic of the Algerian economy and the promising development prospects which are suggested in the Report.

This Report already constitutes for our Government, even before the detailed comments which we shall make before the Annual Meeting of the Fund and Bank, a valuable tool for analysis and decision-making.

On behalf of the Government, I would like to thank you personally for the choice you have made in selecting the Mission and for the support you constantly gave in the preparation of this Report which represents a significant and necessary milestone in the relationship between the Bank and Algeria.

In order that the Head of our Government, President Boumedienne, may thank you personally for this invaluable assistance, and to enable you to see at closer range our problems and the very encouraging develment prospects of our young country, I have the pleasure of inviting you personally and to confirm the invitation of President Boumedienne to visit Algeria with Mrs. Woods at a date which will be convenient to you.

You will then have the opportunity to acquaint yourselves directly with the efforts accomplished by our young nation to recover from the scars of the recent grievous events and to master the conditions of its economic growth, despite the numerous handicaps erected on its way to reconstruction and development.

In the light of the diagnostic on the present situation of the Algerian economy specified in the Mission Report, the Algerian Government is deeply convinced that it is possible to stimulate without much delay the economic take-off of Algeria, provided that the internal measures required to improve the efficiency of the economy be accompanied by an increased technical and financial assistance from international organizations and friendly countries interested in the economic growth and social progress of our young nation.

I may already assure you that we shall study very carefully the Report of the Bank and let you know in all frankness our comments both on the data and on the economic policy options suggested in the Report.

I am personally convinced that the spirit of cooperation and friendship which went into the preparation of the Report will continue to inspire our future relations as we consider the honorable institution over which you are presiding not only as a bank capable of making available for the economic development of Algeria the significant financial means required by the variety and importance of existing projects, but also as a highly qualified adviser aware of the problems arising in connection with the national reconstruction and harmonious development of a young nation which deserves the comprehension and support of the international community.

Mr. President, as you suggested, I intend to send to Washington one week before the Annual Meeting of the Fund and the Bank a small delegation which will submit to you the detailed comments on Mr. Avramovic's Mission Report and to discuss with the Bank authorities the importance and specific application of the financial assistance which your institution may in the next few years make available to Algeria.

I shall pursue these discussions with you and Mr. Knapp, endeavoring in particular to define as clearly as possible the economic policy alternatives which our Government will select objectively on the basis of the diagnostic formulated in the Report.

Without anticipating on the priorities and on the requirements which each project involves in the field of financing, I am taking the liberty of suggesting to you that the authorities of the Bank should focus their future interventions on two key sectors in the economic development strategy of Algeria.

These involve on the one hand projects concerned with the petroleum industry and the export of natural gas to Europe, and on the other hand the re-equipment and modernization of the agricultural sector, both modern and traditional. The second operation has a character of urgency which the Report has not failed to underline and requires a massive, coherent and urgent intervention within a limited period of time.

Obviously, each of these two sectors requires an appropriate financing as far as the rates and duration of the loans to be made are concerned. With regard to the capacity of the agricultural sector to absorb a high amount of credits and to utilize at best the equipment which it would receive, it appears that this problem may easily find a solution taking into account the measures taken in this connection to improve the organization and profitability of the farms.

I had the opportunity to tell Mr. Avramovic that the ambition of Algeria was to mobilize all available resources to move promptly out of under-development, in order that Algeria may, in turn, bring its modest contribution to the development of countries less advanced or less favored than it is.

I am thinking in particular of the helplessly poor regions of the globe gnawed by hunger and the growing disinvestment of which is a cause of concern to the universal conscience. I apologize, Mr. President, for the fact that even before meeting you and discussing the findings of the Bank Report and the prospects for cooperation between your institution and my country, I am already suggesting a specific application of the substantial assistance which could be made available by your institution.

I am looking forward to see you during the forthcoming Meeting of the Fund and Bank.

Yours sincerely,

(Signed) Kaid Ahmed

INCOMING LETTER

الجمهورية الجزائرية الديمقراطية الشعبية

REPUBLIQUE ALGÉRIENNE DÉMOCRATIQUE ET POPULAIRE

MINISTERE DES FINANCES
ET DU PLAN

CABINET

N°

Handed by Mr. Avramovic on August 29, 1966

Alger, le ~~le 27 Août 1966~~

Monsieur WOODS
Président de la Banque
Internationale pour la Reconstruction et le Développement.

- WASHINGTON -

Monsieur le Président,

Le Rapport sur la croissance économique de l'Algérie nous a été remis par M. ABROMOVIC, chef de la mission que vous avez bien voulu envoyé à Alger en mars et avril derniers à notre demande.

Qu'il me soit permis tout d'abord de vous remercier personnellement de la célérité avec laquelle cette mission a effectué son travail et pour les qualités d'intelligence, de compréhension et de sympathie dont a fait montre M. ABROMOVIC dans l'établissement du diagnostic de l'économie algérienne et des perspectives prometteuses de développement que suggère le Rapport.

Celui-ci constitue d'ores et déjà pour notre Gouvernement et avant même les commentaires détaillés que nous ne manquerons pas de faire avant l'Assemblée annuelle du F.M.I et de la Banque, un outil précieux d'analyse et de décision.

Je voudrais au nom du Gouvernement, vous remercier personnellement du choix que vous avez fait de la mission et du soutien que vous avez constamment apporté à l'établissement de ce Rapport qui marque une étape importante et nécessaire dans les relations entre la Banque et l'Algérie.

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Pour donner l'occasion au chef du Gouvernement, le Président BOUMEDIENNE, de vous remercier personnellement de ce concours inestimable, et pour vous permettre de voir de plus près nos problèmes et les perspectives très encourageantes de développement qu'offre notre jeune pays, j'ai le plaisir de vous inviter personnellement et de confirmer l'invitation du Président BOUMEDIENNE à venir effectuer avec Madame WOODS un séjour en Algérie à une date qui vous conviendrait.

Vous aurez ainsi l'occasion de prendre directement connaissance des efforts qu'accomplit notre jeune nation meurtrie par les évènements douloureux que vous savez, en vue de maîtriser les conditions de sa croissance économique, malgré les handicaps nombreux qui se dressent sur la voie de sa reconstruction et de son développement.

A la lumière même du diagnostic énoncé par le Rapport de la mission sur la situation présente de l'économie algérienne, le Gouvernement algérien à la conviction intime qu'il est possible de provoquer dans des meilleurs délais le décollage économique de l'Algérie, à la condition que les mesures internes requises pour améliorer l'efficacité de l'économie soient accompagnées d'une assistance technique et financière accrue des organismes internationaux et des pays amis intéressés par la croissance économique et le progrès social de notre jeune nation.

D'ores et déjà, je peux vous assurer que nous apporterons un soin attentif à étudier le Rapport de la Banque pour vous faire part très franchement de nos commentaires tant sur les grandeurs chiffrées que sur les options de politique économique que suggère ce Rappòrt.

Je suis sûr personnellement que l'esprit de coopération et d'amitié qui a présidé aux travaux d'élaboration du Rapport continueront à animer nos relations ultérieures, car nous considérons l'honorable institution que vous présidez non seulement comme une Banque susceptible de mobiliser au profit du développement économique de l'Algérie les moyens financiers importants requis par la variété et l'ampleur des projets existants, mais aussi comme un conseiller hautement qualifié et averti des problèmes que pose la reconstruction nationale et le développement harmonieux d'une jeune nation qui mérite la compréhension et le soutien de la communauté internationale.

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Monsieur le Président, comme vous l'avez vous-même suggéré, j'ai l'intention d'envoyer à Washington une semaine avant la session annuelle du Fonds et de la Banque, une délégation restreinte qui sera chargée de vous faire part des commentaires détaillés que nous inspire le Rapport de la mission de M. ABROMOVIC, et pour discuter avec les autorités de la Banque de l'ampleur et des points d'application de l'assistance financière que votre institution est à même de mobiliser dans les prochaines années au profit de l'Algérie.

Je reprendrai ces discussions avec vous-même et le Vice-Président KNAPP, en m'attachant particulièrement à définir aussi clairement que possible les choix de politique économique que notre Gouvernement est amené à faire objectivement sur les bases du diagnostic formulé dans le Rapport.

Sans anticiper sur l'ordre des priorités et sur les exigences que chaque projet implique dans le domaine du financement, je me permets de vous suggérer dès à présent que l'attention des autorités de la Banque se porte pour ses interventions à venir sur deux secteurs qui apparaissent de toute évidence comme deux secteurs-clés dans la stratégie du développement économique de l'Algérie.

Il s'agit d'une part des projets de valorisation des hydrocarbures et d'exploitation de gaz vers l'Europe, d'autre part du rééquipement et de la modernisation du secteur agricole, tant moderne que traditionnel. La deuxième opération se pose avec une acuité que n'a pas manqué de souligner le Rapport et nécessite une intervention massive, cohérente, urgente et limitée dans le temps.

Naturellement, chacun de ces deux secteurs requiert un financement approprié quant au taux et à la durée des prêts susceptibles de leur être appliqués. Quant à la capacité du secteur agricole, d'absorber un montant élevé de crédits et d'utiliser au mieux le matériel dont il serait ainsi doté ; il m'apparaît que ce problème peut trouver aisément une solution, compte tenu des mesures prises à cette fin pour améliorer l'organisation et la rentabilité des exploitations agricoles.

J'ai eu l'occasion de dire à M. ABROMOVIC que l'ambition de l'Algérie était de mobiliser tous les moyens possibles pour sortir rapidement du sous-développement afin qu'elle soit à même d'apporter à son tour sa modeste contribution au développement de pays moins avancés ou moins nantis qu'elle.

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Je pense particulièrement à ces régions deshéritées du globe que tenaille la faim et dont le désinvestissement croissant angoisse la conscience universelle.

Je m'excuse, Monsieur le Président, qu'avant même de vous rencontrer et de discuter les conclusions du Rapport de la Banque et des perspectives qui s'ouvrent à la coopération entre votre institution et mon pays, je vous propose aussi rapidement un point d'application précis pour recevoir un effort substantiel de votre institution.

En attendant le plaisir de vous retrouver lors de la prochaine Assemblée du Fonds et de la Banque, je vous prie de croire, Monsieur le Président, à l'assurance de ma haute considération.

Kaïd

KAID AHMED

الجمهورية الجزائرية الديمقراطية الشعبية

REPUBLIQUE ALGÉRIENNE DÉMOCRATIQUE ET POPULAIRE

MINISTERE DES FINANCES
ET DU PLAN

(Handed by Mr. Avramovic on August 29, 1966)

Alger, le le 27 Août 1966

CABINET

N°

Monsieur J. BURKE KNAPP
Vice-Président
Banque Internationale pour la
Reconstructure et le Développement.

- WASHINGTON -

Monsieur le Président,

Je vous remercie du message que vous avez bien voulu me transmettre par l'intermédiaire de M. ABROMOVIC à l'occasion de la présentation au Gouvernement du Rapport économique qu'une mission de la Banque a effectué, à notre demande, sur la croissance économique de l'Algérie.

La qualité de ce Rapport dont nous avons pris connaissance, fait honneur à votre honorable institution et à ses auteurs, notamment le chef de la mission, dont je me plais à souligner l'intelligence , la compréhension et la sympathie qu'il a pour le développement des jeunes pays.

Au cours du séjour très court de M. ABROMOVIC, nous avons fait part à celui-ci de nos premières réactions qui ont surtout porté sur le volume 1 du Rapport consacré à la vue d'ensemble des problèmes économiques de l'Algérie.

Nous continuerons naturellement à l'étudier en détail pour formuler avant l'Assemblée annuelle du F.M.I et de la BIRD nos observations tant sur les chiffres et séries statistiques que sur les mesures et recommandations proposées en vue d'améliorer l'efficacité de l'économie.

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Mon attention personnelle et celle de mes services portera également sur les choix de politique économique qui sont énoncés dans le Rapport.

Comme vous l'avez vous-même suggéré, Monsieur le Président j'ai l'intention d'envoyer à Washington une délégation restreinte de hauts fonctionnaires, une semaine avant l'ouverture de l'Assemblée annuelle pour vous faire part de nos commentaires détaillés sur le Rapport et ouvrir des négociations avec la Banque en vue de déterminer les concours que votre institution est à même de mobiliser pour le développement économique de l'Algérie au cours des prochaines années.

D'ores et déjà, je me dois de vous indiquer que mon Gouvernement partage le diagnostic général que la mission de M. ABRAMOVIC a porté sur la situation présente de l'économie algérienne et sur ses capacités de développement rapide. C'est pourquoi je suis, en tant que Ministre des Finances, anxieux de faire coïncider l'effort interne d'assainissement financier et de relance économique avec l'assistance technique et financière d'origine extérieure requise par l'ampleur de nos objectifs.

Comme je le dis, par ailleurs à M. le Président WOODS, c'est l'un des thèmes que je me propose d'évoquer avec vous à la fin du mois de septembre, en portant l'accent particulièrement sur le secteur agricole qui occupe une place majeure dans notre stratégie économique.

En attendant le plaisir de vous revoir, je renouvelle mes remerciements sincères pour le concours technique que votre institution a apporté à l'Algérie dans un laps de temps aussi court, et qui nous a permis ainsi de franchir un pas important et nécessaire dans nos relations appelées à devenir de plus en plus étroites. Ce pas n'aurait pas été aussi aisé sans votre intervention personnelle et celle du Président WOODS.

Je vous prie d'agréer, Monsieur le Président, l'assurance de ma haute considération.

Kaid

KAID AHMED

FORM No. 60.EC
(4-65)

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

INTERNATIONAL DEVELOPMENT ASSOCIATION

DECLASSIFIED CONFIDENTIAL

MAY 17 2017

WBG ARCHIVES

ECONOMIC COMMITTEE

Mr. Woods

Please see the MAIN ECONOMIC REPORT by D. AVRAMOVIC. It makes excellent reading - not a "dry as dust" report but full of challenges.

JW
1 JUL.

EC/A/66- 29

June 29, 1966

NOTICE OF MEETING

A meeting of the Economic Committee will be held on Thursday, June 30, 1966 at 3:30 p.m. in the Board Room.

AGENDA

The Committee will discuss the Memorandum (EC/O/66-106 /1, dated June 29, 1966) from the Africa Department on the economic report, "Economic Growth of Algeria: Problems and Prospects", and Volume I, "Overall View" of the report.

C. F. Owen
Secretary

DISTRIBUTION

Committee:
- The Economic Adviser to the President, Chairman
- Director, Economics Department
- Director, Special Economic Studies
- Director, EDI
- Special Adviser to the President (Mr. Rist)
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- Director, Office of Information
- Director, European Office
- Secretary, Loan Committee
- Executive Vice President (IFC)

FORM No. 61-EC
(7.65)

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

INTERNATIONAL DEVELOPMENT ASSOCIATION

CONFIDENTIAL

ECONOMIC COMMITTEE

EC/O/66 - 106

June 29, 1966

Algeria: Memorandum on Economic Report

1. The attached Memorandum (EC/O/66-106/1, dated June 29, 1966) from the Africa Department on the economic report, "Economic Growth of Algeria: Problems and Prospects", and Volume I, "Overall View" of the report will be discussed at the meeting of the Economic Committee on Thursday, June 30, 1966.

C. F. Owen
Secretary

Attachment

D I S T R I B U T I O N

Messrs.	Friedman	Bell	Maiss
	Kamarck	Edelman	McDiarmid
	El Emary	Gilmartin	Sadove
	Adler	King (B. B.)	Thompson
	Avramovic	Larsen	Weiner
	Rist	Lipkowitz	Wright
	de Vries		
	Collier		

Also: Mr. Woods and Mr. Knapp.

CONFIDENTIAL

EC/O/66-106/1

June 29, 1966

ECONOMIC COMMITTEE

Memorandum from Africa Department

Algeria Economic Report

Introduction

1. The Economic Committee will consider on Thursday, June 30, the major policy issues posed in Volume I "Overall View" of the report entitled "Economic Growth of Algeria Problems and Prospects."

2. This report was prepared by a mission organized by the Bank and directed by Mr. Avramovic which visited Algeria from March 1 to mid-April in response to the request of the Algerian Government for advice on economic development. The report is thus in the first instance addressed to the Algerian Government. It will, of course, also serve as an essential basis for the formulation of the Bank's own policy towards Algeria.

3. A discussion of the preliminary findings of the Algerian Mission was held in the Bank on May 9. These findings, which are summarized in the attached minutes (EC/F/66-9), are essentially the same as those spelled out in the Economic Report.

Main Issues for Discussion

4. It is suggested that this review of the main report might usefully concentrate on the following substantive issues:

a) Are the major policy prescriptions proposed in the report necessary and sufficient conditions for dealing with Algeria's main economic problems over the medium run? To what extent does their success depend on simultaneous action on all fronts?

b) If some differences in time phasing - to take account of the different types of institutional constraints - can be tolerated, would it be feasible to spell out more precisely what steps should be taken, and in what order, to implement each of the main parts of the package? Under what circumstances, if any, would it be desirable to proceed with implementing oil and gas investment possibilities (where executive capacity poses few problems) before all or part of the main internal reforms proposed have been initiated?

c) What significance, from a policy standpoint, should be attached to the quantitative targets for investment and finance outlined in the report, given the basic assumptions underlying these targets? With respect to external finance, can the potential quantitative roles attributable to public and private foreign investment be made more explicit?

d) What should be the crucial performance tests for the Bank to play an active role in Algeria?

5. In addition, it might be useful for the Committee to consider, in the light of its discussion of the above points, the timing and tactics of the next steps in presentation of this report and the Bank's position to the Algerian Government.

A. G. El Emary
Director

Attachment: Minutes of Meeting on Algeria (EC/F/66-9, dated June 2, 1966)

AREA DEPT.

MEMORANDUM.

Form No. 61-EC
(7-65)

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

INTERNATIONAL DEVELOPMENT ASSOCIATION

CONFIDENTIAL

ECONOMIC COMMITTEE

EC/F/66 -9

June 2, 1966

MEMORANDUM TO FILES

Minutes of Meeting on Algeria

1. Mr. Friedman called a meeting on May 9, 1966[1/] to discuss the preliminary findings of the recent economic mission to Algeria. Mr. Avramovic, who was leaving on May 10 for further discussions in Paris and Algiers, gave an oral presentation of these findings. The main points raised at the meeting were as follows.

I. Economic Problems

2. The economy was stagnating; unemployment might be as high as 20% of the labor force, and there was considerable under-employment. There was unutilized capacity in agriculture and industry.

3. Incentives had to be restored to business and labor; wage levels were similar to those in France, but labor productivity was about half that in France. The existing price/wage relationships were not suitable for maximum efficiency. The economy was not competitive in exports, and import substitutes were out-priced as much as 50%.

4. A wine-growing surplus was emerging in the Mediterranean area. Algeria had a wine quota in the French market but this was being reduced. Possible markets might develop in Germany and the United States, but surplus capacity was still expected in Algeria. The wine-growing area might have to be reduced by as much as one-third.

1/ Present were: Messrs. Friedman, El Emary, Chadenet, Avramovic, de Vries, Williams, de Wilde, Collier, Larsen, Guillot-Lageat, van Helden, Wyatt.

Distribution: Members of the meeting

MINUTES OF
ECONOMIC COMMITTEE
MEETING HELD
MAY 9.

5. The method of financing agricultural output was not conducive to efficiency. Agriculture was over-indebted; efficient farms were repaying debts, and all farms, efficient as well as inefficient, were receiving payments without regard to their actual outputs.

6. The country had considerable infrastructure development; in fact, port and power facilities were in excess of present and immediately foreseeable needs. Yet, there were serious doubts about the capacity of the civil service to implement a larger investment effort, mainly as a result of the exodus of nearly a million French people, and the consequent loss of technical and managerial skills, and also consumer markets.

7. The currency was over-valued and this discouraged the development of commodity exports.

II. Possible Basis for Economic Improvement

8. The following elements offered the basis for bringing the economy out of its present stagnation, and achieving a satisfactory rate of growth:

a) Revival of business activity through the effective utilization of present productive capacities in industry and agriculture;

b) New construction;

c) A substantial increase in total investment (public and private); the Government explicitly wished to attract foreign capital--from national governments, international agencies, and private sources--to help in the country's economic growth;

d) Continued development of the country's oil and natural gas resources, in cooperation with foreign private investment, and the effective use of revenues from the oil/gas sector to help the development of other sectors of the economy.

e) Implementation of large gas and fertilizer projects, including proposed gas pipe lines across the Sahara to the coast for shipment of natural gas to European markets.

9. The most encouraging features were the availability of projects which would make a level of investment two or three times the present one possible; and the present movement towards liberalization of the economy, in terms of unfreezing prices and restoring market incentives.

III. Requirements for Economic Improvement

10. Public development expenditures (including joint ventures with foreign private companies) should average more than double the annual average realized in the past three years. However, this level of investment would result in a large resource gap, and external assistance would be required to meet this gap.

11. A strict performance-reward system would have to be established in industry and agriculture, in order to increase production and to establish cost/price relationships which would permit more efficient methods of production.

12. Prejudices against foreigners working in Algeria would have to be overcome. A large number of foreign technicians, perhaps on contracts, would be necessary to increase the country's capacity to absorb new investment.

13. Attitudes to foreign investment already established in Algeria should be changed. Inter alia, incentives being offered by the Government to attract new foreign investment to Algeria should also be given to established businesses; the remitting of currently generated profits should be allowed.

14. (a) Agricultural diversification was essential. Land taken out of wine-growing should be utilized for production of early vegetables (the European market offered favorable opportunities), and citrus fruits. The production of fruit juices and frozen fruits also had good export possibilities.

(b) The agricultural credit system should be reformed to ensure that credit was extended to farmers who would make a contribution to production for the domestic market, or exports. Subsidies to agriculture should be reduced.

15. Algeria should adopt a realistic exchange rate. This would help, if the other measures to increase output and efficiency were effectively implemented, to make the economy more competitive, and to utilize existing industrial and agricultural capacities.

IV. Conclusions and Recommendations

16. It was agreed that Mr. Avramovic, in his discussions with representatives of the Algerian Government, should convey the economic issues which the Government had to consider. Unless the Government faced up to economic facts, particularly the need to improve the efficiency of the economy and to increase investment, the economy would continue to stagnate.

17. If the Algerian Government implemented sound economic policies, it could look with confidence to Bank support. In his discussions, Mr. Avramovic should seek to form an estimate of the political acceptability of the major economic measures which would be required.

18. The meeting also agreed that Mr. Avramovic should inform the Algerian Government that careful consideration should be given by the

Government to the problem of the exchange rate in relation to development, and that specific solutions should be discussed with the International Monetary Fund.[1]

C. F. Owen
Secretary

1/ In subsequent discussions with Fund officials, it was decided, at their request, that Mr. Avramovic should refrain from making any reference to the Fund. Mr. Avramovic was informed accordingly on May 12, 1966.

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INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

INTERNATIONAL DEVELOPMENT ASSOCIATION

ECONOMIC GROWTH OF ALGERIA: PROBLEMS AND PROSPECTS

(in eleven volumes)

VOLUME I

OVERALL VIEW

June 27, 1966

Africa Department

CURRENCY EQUIVALENTS

DA 4.90	=	US $1.00
DA 1.00	=	NF 1.00

BASIC DATA

Area:	817,000 square miles
Population:	12 million (estimate)
Rate of growth:	2.8 % (1950-1970)
Population density:	15 per square mile
Gross National Product at Market Price, 1964:	DA 14.1 billion
Per capita:	US $118 "
Gross Domestic Product at Market Price, 1964:	DA 13.9 billion
of which, in per cent	
Agriculture	16.5 "
Manufacture and mining	10.1
Petroleum	14.6
Commerce	21.5
Government	20.1
Rate of Growth (total value added):	3 per cent (1960-1964)

Investment and Saving, 1964
(as % of GDP at market prices)

Gross investment	16.1
public sector	11.1
private sector	5.0
Gross domestic savings	15.3
Resource gap	0.8
Factor income payments	- 1.8
Factor income payments and private transfers	0.2
Balance of payments on current account	- 1.0
Resource gap as % of Investment, 1964:	6.2

Money and Prices, 1965:

Currency equivalents
1 dinar: US $0.20
1 US $: 4.90 dinars

Preferential marketing and tariff arrangements with French currency area.

Money and credit	billion DA 1965	Annual rate of change in per cent 1962 - 1965
Total money supply	4.8	6.2
Time and savings deposits	0.1	-
Central Bank credit to Government	1.3	nil in 1962

BASIC DATA (Cont'd)

	1959-1965
Wholesale price index	3.3

Public sector operations, 1965:

	billion DA	% of GDP at market price
Government current receipts	2.9	20.9
Government current expenditure	3.0	21.6
Current deficit	0.1	0.7
Government development expenditure	1.0	7.2
Total public savings	-	-
Total public investment	1.4	7.9

Balance of payments, 1965:

	US million
Exports of goods and services	670
Imports of goods and services	808
Invisibles, net	58
of which investment income	(87)
Current account deficit	80

Commodity concentration of exports	% of total exports
Petroleum	59
Wine	19

Gross foreign exchange reserves — US $ 184 million (or 3 months' imports)

IMF position	1965
Quota	60
Drawings	none

External public debt	1966
Total debt outstanding, US $ million	333
of which undisbursed	65
Debt service ratio, per cent of 1965 exports	2.1

PREFACE

1. This report contains the findings of the Algeria Mission, organized by the International Bank for Reconstruction and Development. The Mission was in Algeria from March 1 to mid-April; the remaining two months were used to analyze the material and to formulate the Mission's conclusions.

2. The Mission wishes to express its appreciation to the Government of the Democratic and Popular Republic of Algeria for their wholehearted assistance and most forthcoming and helpful cooperation. The Mission was organized at the request of the Government; and it could have never completed its assignment on time if the Government had not given top priority, amongst its many priority tasks, to this cooperation.

3. The Algeria Mission enjoyed support from many international agencies. Staff members of the International Monetary Fund, GATT, ILO, UNESCO and FAO were members of the Mission. The United Nations Office in Algeria extended to the Mission the most generous assistance. Judging by the number of international agencies engaged in Algeria Mission work, this was probably one of the most striking endeavors in international cooperation in a study of a developing country.

4. The Mission also wishes to express its gratitude for the help it received from the offices and institutions of the Government of France. Their long association with the economic problems of Algeria has resulted in an unmatched knowledge: they have shared this knowledge with the Mission most generously.

5. The Mission faced many statistical problems in Algeria; this was inevitable in view of its turbulent and bitter history. It is not believed that the statistical gaps and difficulties invalidate the Mission's basic findings, although many errors of fact and interpretation are most probably contained in its report.

6. The Mission's report consists of eleven volumes. Volume I is the summary report. Volume II contains a series of special economic studies: of Algeria's national accounts, public development expenditures and financing, tax system, export trade, balance of payments. Volumes III-XI are devoted to an analysis of the major problems, prospects and expenditure programs of the main sectors of the economy.

ECONOMIC GROWTH OF ALGERIA:

PROBLEMS AND PROSPECTS

MEMBERS OF THE MISSION

Dragoslav Avramovic	Chief of Mission, Bank
A. M. Abdel-Rahman	Fiscal Economist, IMF
Jean Brechot	Engineer, Transport, Bank
Guy de Brichambaut	Agronomist, FAO
Philippe Carré	Economist, GATT
Blanche Dickinson	Marketing, Private Consultant
L. Garnier	Engineer, FAO
R. Georis	Education, UNESCO
Jacques Guillot-Lageat	Industrial Economist, Bank
H. van Helden	Transport Advisor, Bank
Maurice Idoux	Manpower Economist, ILO
H. Kraus	Economist, GATT
Eugenio Lari	Economist, Bank
Paolo Leon	Economist, Bank
M. de Lisle	Transport, Consultant
Robert Maubouché	Economist, Bank
Christian Merat	Agricultural Economist, Bank
Frank Moore	Agricultural Economist, Consultant
Jacques Petit	Agricultural Economist, BDPA, Paris
H. Seidel	Hydraulics, Consultant
Francis Soges	Engineer, Transport, Bank
Wilfred Thalwitz	Transport Economist, Bank
Georges Thorn	Economist, Gatt
Fe Villafuerte	Industrial Economist, Bank
Gavin Wyatt	Engineer, Power, Bank
Flora White	Economist, Bank (Washington Only)
Florence Gaudet	Secretary, Algiers and Washington, D. C.
Cécile Lim	Secretary, Algiers
Charlotte Morris	Secretary, Washington, D.C.
Janine Raibaut	Secretary, Paris Office

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VOLUME I

OVERALL VIEW

This volume was prepared by
Dragoslav Avramovic

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CHAPTER I

THE PROBLEMS

1. Four years after winning independence in a long, bloody and costly war, the Algerian economy faces at least five serious problems.

A. Unemployment

2. First, the rate of unemployment is high in the major cities. In addition unemployment and underemployment is widespread throughout the rural areas. The numbers are not precisely known: current estimates suggest urban unemployment at 300,000. This compares with employment in manufacturing and construction at present of about 130,000. The uncertainty of the statistics is no consolation either for those who are unemployed or for the Algerian Government, or for the nation as a whole. Probably the Algerian revolution will remain incomplete as long as the man-in-the-street cannot hope to find a job.

3. Algeria suffered from acute unemployment even before independence: one of the major goals of the Constantine Plan 1959-1963 was to create productive non-rural employment. The Constantine Plan remained unfinished. The decrease in population caused by war and the subsequent substitution of Algerian nationals in positions formerly held by the French tended to lessen the unemployment problem. However, the slow recovery of economic activity and low level of investment are now aggravating the unemployment situation.

4. Another factor has been the inflow of population from the rural to the urban areas, partly as a result of the war and its consequences. It is estimated that as many as 2 million persons moved to the major cities between 1959 and 1966.

5. In addition to these special factors, there is the natural growth of the labor force. Although statistical evidence is lacking it is commonly accepted that the rate of population growth is around 3% per annum. Moreover, the labor force increases more rapidly due to the large concentration in the younger age groups.

6. High urban unemployment is not a unique Algerian phenomenon. It may be more acute than elsewhere and probably more acutely felt. The new Algeria has satisfied the nationalist ambitions, but it has not yet provided more jobs. Decisive action to increase employment is an urgent challenge facing the present government, or, for that matter, any other government of Algeria.

ALGERIA

- MAIN ECONOMIC REPORT.

B. Lack of Competitiveness

7. The second major problem is the lack of competitiveness. Both industry and agriculture operate at high cost. Wages for skilled and semi-skilled workers in industry are about 70-80% of the level in France: At the same time, it is widely accepted that relative productivity per man-hour is below this percentage. In the nationalized agricultural sector (the former settlers' estates), the share of wages in gross product (gross sales) is now about 60%, three times the previous low level. Freight costs per ton/km are very high compared to other countries. Algeria's agricultural exports, even those that do not face trade restrictions in importing countries, are not moving: in the late 1950's, Algeria exported 150,000 tons per annum of fresh vegetables valued at DA 90 million; today it exports 50,000 tons valued at DA 30 million. At the same time, the country is flooded with imports including those it should be able to produce easily. The Algerian production of consumer manufactures is negligible, although the market is large and the capacity is there or can be quickly established.

8. The reasons for the lack of competitiveness are complex; wages have risen, while production has stagnated or fallen. High wage rates in the face of large and growing unemployment is one of the puzzles of the Algerian economy: it is explained partly by the strength of the trade unions, partly by the welfare considerations of the Government, and partly by the general phenomenon of sticky nominal rewards. Productivity has fallen in the modern farm economy: the nationalized sector employs about 11% more labor than before, while the area is 15% smaller. Productivity has also fallen in industry enterprises have more employees than is needed for the present level of output. Private manufacturers informed the Mission that they are outpriced, by a substantial margin, in comparison both with imported goods and in export trade. As a result, demand for credit by the private sector - and by the commodity producing activities generally - is low.

9. Unemployment, underutilization of capacity and lack of competitiveness are closely inter-related. If capacity could be better utilized, unemployment would fall; and since marginal costs would be lower, up to a point, than the present average costs, a decline in average costs might occur, with a consequent improvement in competitiveness.

C. Lack of Skills

10. The lack of skills is a major structural problem. Formerly, not only foreign administrators, but also a foreign middle class ran the economic life of the country. Their exodus in 1962 left gaping holes in the supply of skilled manpower; no systematic training of the Algerian population for managerial and technical positions had taken place.

11. In the last four years, however, Algeria has succeeded in running its economy and society without any major obvious adverse effects. This is testimony to the organizational ability, courage, and dedication of its leadership and to the intelligence and flexibility of its population.

12. Nonetheless, the lack of skills remains a formidable obstacle to growth. It is felt everywhere: in agriculture, industry, power, public works, accounting, administration. The government is facing this problem by introducing training programs in most fields which have been successful in producing intermediate-level skills. But what remains to be done is still enormous, including a major restructuring of the educational system. Furthermore, if the economy is to embark on a major investment program and to undertake a massive revival and upsurge of economic activity, a large-scale temporary infusion of foreign skills will be needed. At the same time a major reorganization of the educational system is needed in order to produce national skilled manpower as soon as possible.

13. The magnitude of the problem could be reduced if ways could be found to induce a substantial repatriation of the Algerian skilled manpower now working abroad. It is estimated that there were 300,000 Algerian workers in France in 1963, of which as many as 41% were skilled and semi-skilled, or as many as total present employment (skilled and unskilled) in Algerian manufacturing and construction. By 1965 this number had risen to 400,000. If employment conditions, prospects for advancement and the general environment are substantially improved, this may be an inducement to attract some of them back.

D. Shifts in Demand and the Export Problem

14. The political changes of the early 1960's have resulted in a major adjustment on the side of demand. The one million Europeans that lived in Algeria accounted for 10% of the total population, but they commanded about one-third of total effective purchasing power and consumed a large part of domestic industrial production. Their consumption pattern, given their income level, was substantially different to the pattern of the present Algerian population. The Algerian production structure is not only in need of reconstruction and development: it also needs reconversion to a new structure of demand. This process is beginning.

15. Before independence, Algeria's export trade (agriculture, mining, beginnings of petroleum) was concentrated on the French market. At the present time, most of the exports continue to go to this market. For petroleum and most of mining products no serious problems of readjustments are expected. In agriculture, however, this problem exists and it is a serious one. Most directly affected is wine, the chief agricultural export product and the main activity of the nationalized modern farm sector.

16. The present world consumption of wine is about 225 million hectoliters. It has been increasing since the war at about 3% per year. Most of consumption is satisfied by local production: only about 25 million hectoliters, or 10% of production, enters world trade. The trade is essentially European, and Mediterranean: Algeria, Morocco, Tunisia, Italy and Spain are major net exporters, and France at the same time imports and exports wine. Algeria is the largest world net exporter accounting for one-half of world exports: until a few years ago it was selling 12-13 million hectoliters (DA 900 million). Almost all of the wine goes to the French market where it has been traditionally used partly for direct consumption, and partly for blending with French production.

17. Arrangements are now in force providing for a continuing reduction in Algerian sales to the French market. By 1968, they have to be cut down to 7 million hectoliters: it is rumored that a reduction even below this figure may soon be requested.

18. If these arrangements are carried out, the readjustment problem will be very severe. So far no systematic work on diversification has been done. The Algerian authorities have already started destroying vineyards, but no alternative crops are being sown: the necessary studies have not yet been completed and the reconversion work has not yet been organized. But even with the best will and organization in the world, it is probably physically impossible to reconvert in a few years one-half of the production structure. The farm economy of Algeria is not General Motors; and to move from wine into citrus fruit or vegetables or livestock is more difficult than to change over from trucks into tanks or from propeller-driven aircraft to jets.

19. The wine economy of Algeria developed under free trade conditions. In the late 1930's, before the regulation of the wine market, Algeria produced 18 million hectoliters annually, almost one-third more than today, and its share of world production was 9% compared to 4% at present. It is probably safe to say that Algeria has comparative advantage in producing wine: otherwise the settlers would not have moved in, Algeria's exports would not have been so much larger than in the other countries along the North African Coast (in 1962-64 Morocco and Tunisia each produced approximately 2 million hectoliters) nor would they have stood so well the competition of the Italian, Spanish and French production.

20. The present situation is a result of uncoordinated expansion of output in the European countries, supported by their governments in order to lift the incomes of domestic producers. If this could be done without affecting international trade, it would involve only internal shifts in income distribution: consumers of wine would be made to pay a tax to wine producers and more wine would probably be produced than the consumers want. But this would be an internal European affair. As the matter stands, however,

it is the developing countries in the Mediterranean area who will pay the price for the expansion of production in Europe. And they are the least able to reconvert, financially and technically. This is an international problem affecting the whole Mediterranean area, calling for an international solution.

21. For Algeria, each million hectoliters of lost sales represents 5% of gross receipts of the nationalized sector and probably more of its net income since wine is the most profitable crop. Diversification away from excessive dependence on one product is in Algeria's long-run interest: its agriculture can, and should move more into citrus fruit, other fruits, fodder crops. But a deliberate and systematic diversification effort, after proper research of soil conditions, of irrigation and other requirements, and of marketing outlets for the alternatives, is one thing. The massive destruction of healthy plants is another. And to make matters worse, it is not yet clear what the fate of the trade in vegetables will be as the European Common Market proceeds with adjusting duties and fixing prices to protect the domestic producers; nor is it clear what the future price of citrus fruit will be because all the Mediterranean producers are engaged in uncoordinated expansion programs and ultimately the European Common Market is going to charge a 20% duty to third countries; nor is it clear what reconversion problems Algeria will face in moving away from the traditional production of hard wheat which it cannot sell any more to Common Market countries, to the production of soft wheat for which its soils are less suitable. Early agreement on Algeria's position in the EEC is essential, and negotiations are expected shortly.

E. Dual Economy

22. An uneasy coexistence between the relatively rich modern sector and the poor and retarded traditional agriculture has been a long-standing feature of the Algerian scene. After independence the exodus of the European population has been inevitably accompanied by a reduction in the differences in incomes between the urban and the rural areas; the movement of the rural population to the cities has increased the numbers of the urban proletariat; the massive recruitment of the rural population for the army and for the administration has been another equalizing factor. And yet, the plight of the traditional sector which accounts for the largest part of the population is still much greater than that of the urban areas and of the modern farm economy. The Government is fully aware of the need to help traditional agriculture: the Mission has been told at the highest levels in the Government that this is and will remain the major concern of its activity.

23. It is a paradox that these intentions are threatened by the newly emerging source of wealth in Algeria: petroleum and gas. Very few people are and will be employed in the exploitation of this resource. Most of the income accruing to Algeria from this activity will be concentrated in the hands of the Government, of contractors and of importers. The examples of other oil-based economies have shown what frequently happens under these

circumstances. Due to a large flow of foreign exchange, the capacity to import expands and the exchange rate is "favorable". Large and cheap imports obstruct the development of domestic industry and agriculture; "favorable" exchange rate is also an obstacle to development of export activities other than petroleum. Large imports imply large profits in import trade and vested interests develop quickly. Large flows of oil revenue induce rapid growth of government recurrent expenditures and of construction activity in government buildings, hotels, clubs, etc. Boom in a few cities is accompanied by slums elsewhere. Domestic agriculture remains untouched by oil money and by real estate booms. Canned food is imported because it is cheaper, at the prevailing exchange rate, than domestic production. Most consumer manufactures are imported, for the same reason. Since the oil industry employs very few people and since other activities are unprofitable, growing exports and imports are accompanied by growing unemployment and by stagnation in agriculture and industry. Not all oil countries are as small as Kuwait: Kuwait can make all its population rich from oil revenue, but neither Iran nor Venezuela can.

24. The major challenge for the Algerian Government is to assure that the forthcoming benefits from oil and gas are channelled into improvements in the rest of the economy. The appropriate institutional arrangements and economic mechanics must be developed before the flow starts in earnest and before vested interests are created. It is no use to argue that Algeria has had its revolution, that it is a socialist country and therefore there is no danger of perpetuation and of further accentuation of the dual economy. The facts are that at present the economy suffers from heavy unemployment; its production is not competitive; its modern agriculture is in difficulty and the traditional agriculture is a still forgotten man's land; many of the skills for development of a modern domestic economy are lacking. Algeria is starting its oil boom from an under-employment equilibrium. It is very easy to imagine a situation in which the incentive to develop import substitutes and non-petroleum exports is blunted by a comfortable foreign exchange position. Since the domestic market is relatively small and many skills are lacking, and since there is virtually no protection of domestic industry and agriculture, it would be surprising if any significant advance in these two key sectors did happen. Whatever the government intentions may be, the initial (present) situation and the mechanics of income flows, prices and profits are such as to inherently lead to an aggravation of the dual economy, with all its cleavages, unhappiness, tensions and ultimately failures to achieve rapid growth.

F. The Problems - Concluded

25. It is the Mission's impression that most government authorities, fully occupied in solving the many immediate and urgent day-to-day administrative and other issues of reconstruction, have not yet had an opportunity to fully consider the magnitude of the major development problems facing Algeria

and the possible alternative ways in which they may be approached and ultimately solved. One of the obstacles, and paradoxically and understandably so, is that Algeria has not yet fully developed an independent economic policy. The new Algeria has not yet had time to consider such issues as protection: it is among the least protected developing country today. Algeria still has to tackle the issue of integrating its monetary and exchange policies with its development policy and objectives and with the issues of resource allocation, priorities and the mechanics through which the objectives can be reached. All these issues are being discussed: as the reconstruction phase is nearing its end, the Government is turning its attention to the problems of strategy and tactics of growth. The Algeria Mission has been fortunate to be taken in full confidence by the Government: the preceding list of major problems is nothing more than an attempt at a systematic summary of facts and concerns widely held by the government and by the Algerian society at large.

CHAPTER II

THE OPPORTUNITIES

26. Algeria is one of those developing countries in which the magnitude of the development problems is perhaps matched by the opportunities open for exploitation. If properly organized and managed, the Algerian economy can grow very rapidly, at a faster rate, on the average, than other developing countries.

A. Oil and Gas

27. Thanks to large deposits in the Sahara, Algeria is rapidly joining the ranks of the world's leading petroleum producers. In 1965, its oil exports amounted to 25 million tons, valued at $350 million, and this year, 1966, they are running at 34 million tons. The expansion is far from completed. By 1970, at a minimum, crude oil exports will reach 46 million tons. The Mission projects them at 70 million (543 million barrels) if the open issues with the petroleum companies are settled soon. These levels compare with the present output of Libya: 452 million barrels, Iran 678 million, Iraq 466 million, Kuwait 792 million and Saudi Arabia 729 million.

28. As impressive as the crude oil deposits are the natural gas reserves in the Sahara. The recoverable reserves in non-associated gas fields alone are currently estimated at 2.2 trillion m^3 (78 trillion ft^3). Since only a comparatively small portion of the immense desert where gas may be found has been geologically explored, the actual reserves are likely to be grossly understated. The biggest field discovered so far is Hassi R'Mel (the western field), acknowledged to be one of the largest natural gas deposits in the world. It is comparable with Panhandle Hugoton in Texas and the Groningen in the Netherlands. The recoverable reserves of Hassi R'Mel are estimated at about 1,184 billion m^3 compared to 906 billion for Panhandle Hugoton and 1,104 billion for Groningen as presently developed. Hassi R'Mel is the only gas field which is presently exploited: the buyers of gas are the Algerian Electricity Corporation and CAMEL, the Bank-financed gas liquefication plant for exports to the U.K. and France. Hassi R'Mel is exploited by SEHR, a company which is 51% owned by CFP(A) and 49% SN Repal, both French-controlled petroleum companies.1/ The next largest field is Rhourde Nouss (eastern field), with proven gas reserves of 110 billion m^3 and with very much higher probable reserves. The concession holders are a French government-owned company (35%), FRANCAREP Co., where Rothschild interests are represented (16%), and El Paso Natural Gas, the U.S.'s largest gas producer (49%). The quality of the Algerian gas is considered excellent in heat value. The gas also contains condensate, a clear liquid similar to gasoline. It is a good building block for the petrochemical industry where it can be used as a raw material for the production of acetylene, hydrogen, carbon black, ethylene, propylene, butane and butadiene. It can also be used as a refinery feedstock, producing regular and high-grade gasoline, diesel and jet fuels.

1/ Since the Algerian Government owns 50% of SN Repal, in effect it has about 25% interest in Hassi R'Mel.

29. The market for the Algerian gas is in Europe. The European consumption of gas, while rapidly increasing, is still low: in 1965, only 5% of the energy needs of the European Economic Community was met by gas. The room for expansion is extremely large: gas, if sold at competitive prices, is now displacing coal or even oil. Natural gas consumption has grown faster than consumption of any other fuel and it represents about 30% of the 1965 energy consumption of the U.S.

30. The Algerian gas will have to compete in Europe with domestic production (Po Valley in Italy, Lacq in France, Groningen in the Netherlands) and with imports (from Libya and possibly from Nigeria). The Mission's analyses suggest that if Algeria steps in quickly it should have no difficulty selling, in the early 1970's, about 10 billion m^3 of gas with an estimated value in the neighborhood of $200 million. The possible markets are Southern France, Austria, Southern Germany, Italy, Spain, Greece, Yugoslavia, Czechoslovakia, Hungary, Switzerland, and also Morocco and Tunisia. With some of these countries, Algeria is already negotiating long-term sales contracts.

31. Feasibility studies for the gas exports project are advanced. There are a number of variants and of their combinations. In all of them it is envisaged that gas pipelines will be built from the Sahara to the Mediterranean coast. There are then various alternatives. Gas can be liquefied in plants established in Algeria's ports and shipped by methane tankers to the regasification plants to be built on the Southern European coast and then distributed through the European gas pipeline network to the consuming centers. Alternatively, a submarine pipeline system crossing the Mediterranean could be built linking Mostaganem in Algeria with Cartagena in Spain. Another alternative is to lay a pipeline through Morocco and cross to the Spanish Atlantic shore west of the Straits of Gibraltar; alternatively still, it would be possible to lay a pipeline through Tunisia and cross the Mediterranean from Cape Bon to Sicily. The pipeline system spanning the Mediterranean would avoid the cost and the trouble of liquefaction and deliquefaction; but it would be something quite new to build submarine pipelines at the depth and distance envisaged.

32. Depending on the transport systems chosen, the total investment requirements to deliver approximately 10-12 billion m^3 of gas to Europe is estimated at about $485-770 million. These estimates are exclusive of the cost of the pipeline system as well as the regasification plants in Europe; and also of the development of the gas fields.

33. The Algerian gas export project is one of the largest international projects currently being considered. Many complex issues will have to be solved for the project to be realized. If they can be solved, the project would not only have a profound effect on Algeria's budgetary and foreign exchange position, but would also contribute significantly to the solution of the energy problem in Europe, both East and West.

B. Availability of Infrastructure

34. Independent Algeria has inherited excellent and ample infrastructure facilities. The power system, the road network and the ports can accommodate demand almost twice as large as at present. The only investments that are needed are those connected with specific industrial and agricultural developments (captive projects) and better maintenance. There are few developing countries which do not have to engage in costly infrastructure expenditures whose direct contribution to growth is inevitably limited. In the next half decade or so, most of Algeria's energies can be devoted to the expansion of production in the commodity-producing sectors. The implication is that rapid growth can be achieved in the economy as a whole at a low incremental capital cost.

C. Import Substitution and Export Industries

35. The room for import substitution is very large. Algeria imports most of its industrial products, over the whole range of finished goods and producers materials. It imports even processed fruits and vegetables, although it has the raw materials and the nucleus of processing plants. Most of textiles and footwear are imported, and so are the pots and pans. Sugar is imported and so are tinned and fresh fish, although both can be economically produced domestically. Practically all consumer durables are imported: domestic assembly is very limited.

36. Industrial exports are small ($40 million), about one-third below the level of the mid-1950's. The possibilities of developing industrial exports are considerable. This refers to nitrogenous fertilizer based on natural gas and possibly to other petrochemicals. Output would partly be sold on the domestic market and partly exported. Another area of export expansion is in food processing industries, especially frozen fruits and juices for the European market. Consumption of frozen foods in Europe is only at its beginning and the room for expansion should be extremely large. Algeria produces fruits, particularly citrus, of excellent quality, which could serve as a basis for a year-round supply of frozen product to the European consuming centers. This requires close association with some of the existing experienced producers and distributors of frozen foods.

37. The Government is now considering industrial programs for different sectors. A master plan is not yet prepared. The key projects presently under consideration are in textiles, fertilizer (nitrogenous and phosphate) and steel. The latter includes pig iron and rolling mill facilities with a capacity of 470,000 tons of steel, at an estimated cost of about $210 million. Negotiations for financing are under way with the French and Soviet Governments, but for about one-third of the cost the financing is not assured. A small part of the semi-finished products will be sold on the domestic market as inputs for domestic finishing facilities (production of pipes for the oil fields)and mostly for exports. The latter raises the question of entry into the Mediterranean trade in steel and steel products in conjunction with some of

the existing major producers, French or Italian. Another possibility is the development of additional finishing facilities which will utilize steel such as the domestic assembly and production of agricultural machinery: the replacement needs of the domestic market are quite large and there may be room for domestic production in conjunction with some of the major international producers of agricultural machinery.

38. Accelerated industrial development which Algeria needs and whose economics can be justified require the solution of two major issues: competitiveness and association with foreign private capital and management.

39. For import substitution industries, Algeria needs tariff protection. The present level of tariff duties is extremely low: customs revenue is 5% of total import value. For many export industries, except those based on gas and oil, Algeria will need export subsidies. The possibility should be explored of introducing an across-the-board duty rate for imports and a subsidy rate for exports. This can then be supplemented, as required, with differential rates, based on priority and infant industry considerations.

40. The other major issue -- the extent and the forms of association with foreign private capital and management -- has occupied much of the attention of the government in recent months. The philosophy of the government is that in most of new basic industrial development the state will have to play a decisive role. At the same time, the government is aware of the need for external capital and external technical and managerial experience. The preferred form of association is a mixed company (societe mixte), where the majority of share capital is held by the Algerian government, with a possibility that a special management contract may be concluded with the foreign partner, assuring him that government majority will not be used to dictate the operations of the plant and providing for detailed management arrangements.

41. This difficult issue is not yet solved: it is not clear to what extent foreign partners would be willing to accept such arrangements, particularly if they can obtain more favorable conditions elsewhere, and it is also not clear to what length the government may feel it can go in satisfying the requirements of foreign capital concerning management and marketing. With the passage of time, as the memories of the past fade, a satisfactory solution would perhaps emerge by itself. The problem is that Algeria cannot wait if the process of rapid growth is to be resumed soon.

D. Organizational Capacity

42. Algeria has a government and an administration whose dedication to national objectives is hard to match. After many years of complete absorption in waging war, and after a period of missionary enthusiasm so typical of new revolutions, the leadership is now turning its attention and energies to the problems of growth and welfare. If it succeeds in

organizing itself for the pursuit of growth objectives with the same single-mindedness of purpose it displayed during war-time, the Algerian economy can expand extensively.

43. At the present time, there is considerable dissatisfaction among businessmen, foreign and domestic, and also among the representatives of foreign governments, not only with the slowness in decision making, but also with the puzzling and apparently irrational decisions, with an apparent lack of consistency in approach and in execution of actions affecting the outside world, whether in the private or the public sectors. Much of this, perhaps most of it, can be explained by the objective difficulties in which the government found itself at the end of the war, and also by the inevitable lack of experience in handling economic and financial affairs. By now, however, the initial difficulties have been overcome and considerable experience has been acquired. But serious problems of management and efficiency remain. This is the paramount issue facing the Government today.

44. One encouraging feature is that some of the branches of the government are doing substantial work in project and program development. Literally Algeria is swarming with foreign consulting firms: the problem is to properly coordinate their work. Although much project material is available, many of the project studies require further work.

45. Algeria is supporting a major tax effort. The ratio of tax revenue, exclusive of petroleum income, to GNP exceeds 20%. This is among the highest in the developing countries: it is double the ratios in Colombia and Mexico. Algeria has introduced an absolute ceiling on salaries and wages of its nationals at $5,500 yearly. There is room for improvement and rationalization of the tax structure, but the overall tax burden cannot be increased much.

CHAPTER III

THE COST

A. General Considerations

46. Algeria has not drawn up an over-all development plan. Whatever the reasons, it is fortunate that it has refrained from formulating one. It would have of necessity been a hastily conceived document, with a loose project content. It would have committed the Government to actions which had not been thought through and which could not have been carried out given the youth of the development administration. However, the various Government agencies have done considerable work in preparing sectoral programs and individual projects.

47. Over the last year or so, the Government has been giving thought to formulating a comprehensive development program. One of the reasons for inviting the Bank Mission was to elicit the views of foreign technical expertise regarding the project, program and policy considerations bearing on a future development plan.

48. It should be made clear that the Mission was not asked nor is it offering a plan for Algeria. Such a plan can be formulated only by the Algerian administration. No group of foreign experts can pretend or be expected to know adequately either the intricate interrelationships of different objectives of policy or the constraints which the Government faces in resource mobilization and resource allocation. What the Mission has tried to do, imperfectly, is to put together the different sectoral programs, assess their project content and their relationships, work out their implications for finance needs and for growth effects and to indicate the policy issues which will arise. The Mission's findings are merely the background analytical material, which the Government may wish to consider when it decides to formulate the plan.

B. The Totals

49. Table 1 sets forth the possible development expenditures over the four years 1967-1970. For comparison, the data are given for estimated actuals for 1963-1965.

Table 1: Public Development Expenditures, Actuals 1963-1965 and Projections 1967-1970 (DA million)

	Actual Total 1963-65, Three Years	Possible Total 1967-70, Four Years	Annual Average 1963-65	Annual Average 1967-70
Agriculture	377	1,560	124	390
Water Supply	278	641	92	160
Petroleum Hydrocarbons (Oil & Gas)	870	6,168	287	1,542
Industry	273	2,020	90	505
Mining	172	123	57	31
Transportation	681	225	817	204
Power	211	70	393	98
Local Equipment Expenditure /1	315	104	360	90
Tourism /2	128	42	(45)	(45)
Education /2	404	1,200	133	(300)
Health	67	80	22	20
Housing	222	910	73	228
Other (incl. Administrative Buildings)	174	57	-	-
Total	4,173	14,452	1,376	3,613

/1 Rural public works.
/2 Guess.

C. Technical Notes

50. The table covers fixed capital formation and expenditures on research, studies, etc., associated with capital expenditures. Outlay on working capital is not included. The expenditures consist of: government direct capital expenditures, financed through the equipment budget, Caisse Algerienne de Developpement, Tresor, etc.; capital expenditures of public corporations and enterprises; and capital expenditures of mixed public-private enterprises. The latter expenditures are entered in toto, although a part will be financed by foreign partners. However, since the Government has assumed the main responsibility for attracting foreign capital, both public and private, it is the total cost of such projects which is entered here.

51. All sectoral projections of expenditures, except for education and tourism, are based on either the already prepared programs and projects or on those which in the view of the Mission can be prepared or finalized reasonably quickly, provided the Government gives top priority to necessary studies and designs and the finance for such studies is not a constraint. Further feasibility analyses and economic appraisal may, of course, indicate that particular projects are not suitable: in that case, the list would be reduced since alternative projects probably could not be prepared quickly. Consequently, the list is a maximum.

52. The estimates for education and tourism are guesses. The Government has not yet prepared programs for these sectors; on the other hand, the Mission did not obtain the necessary expertise in time and therefore was not in a position to analyze the available project material. It is hoped that the Mission's analyses and expenditure projections for these two sectors will be prepared by end-August. Then the grand totals will inevitably change, but it is hoped that the change will not be too drastic.

53. It will probably come as a surprise to the reader - as it was to the Mission - that the projected expenditures are so much larger than the past actuals. The reason is that many project studies had been done by the French Administration in connection with the ambitious but unfinished Constantine Plan (1959-1963); also, the technical experts provided by the French Government after independence have continued project work; further, the Algerian Government has already contracted many project studies with foreign consultants; and the Government continues contracting such studies and intends to expand its activity further. The Mission suggests that this be pursued with increasing vigor and that the supervision of consultants be tightened and, if possible, centralized.

54. The past history of project preparation is a complex one. It has resulted in an unequal distribution: in some ministries projects are much more plentiful and better prepared than in others. The Mission suggests that the central government authorities scrutinize the project preparation activity in order to guarantee preparation of projects in all sectors of the economy.

55. The preceding projections cover four years instead of the customary five. Project material beyond the next four years is not yet available.

D. The Composition

56. Volumes III - XI contain detailed reviews of sectoral expenditure programs and preliminary analyses of their underlying project content. Subsectoral programs are shown in Volume II, Working Paper 2. Only the salient features of the projected capital expenditures will be discussed here.

57. The kingpins of the projected capital outlay are investments in oil and gas, agriculture and industry, i.e., in the commodity producing sectors. Infrastructure expenditures are small, slightly below the yearly level of 1963-65. In social overhead, large increases are expected for education and housing.

58. In oil and gas, the key items are the gas export project and a petroleum pipeline (the fourth in the Sahara). Both projects and the associated expenditures on research and development will result in export output for the European market.

59. The major items in the agricultural program are replacement of one-half of the existing stock of agricultural machinery (mostly tractors) and irrigation works. Also included are expenditures for diversification in the wine-producing regions, development of new industrial crops and ample provision for studies, research and training.

60. In industry, the key projects are steel and two fertilizer plants. In addition, sizable programs are under way in textiles and footwear and new programs are envisaged in metal transformation industries, miscellaneous chemicals, food-processing and food-freezing. Investments in mining include mostly replacement and modernization equipment.

61. The water-supply program includes, in addition to completion of on-going projects, the beginning of work on two large priority schemes: the area of metropolitan Algiers and the Oran-Arzew industrial complex.

62. Transportation investments consist of moderate expenditures on road network expansion, some replacement and modernization of railroad equipment, "captive" port projects and continuing expenditures on telecommunications. Power investments consist of "captive" projects linked with the Annaba-Skikda industrial complex (steel and other industries), as well as renewals.

63. The program in tourism is a guess, based on the capital expenditure provision for 1966/67. It is possible that the four-year program for 1967-1970 will turn out considerably higher than projected in view of the priority which the Government attaches to this sector.

64. The projected expenditures in housing may also turn out to be underestimated. Only rough guesses are possible at the present time concerning the accumulated maintenance needs in urban housing.

65. Probably the most striking single feature of the projected capital outlay is the absence of any program in administrative buildings. It is a refreshing rarity to find a case among developing countries where the austerity in non-priority government capital spending has been pushed this far.

66. The main blemish of the present state of project preparation is the very low allowance for traditional agriculture (about DA 200 million). There is very little that can be done about this at the present time: the absorptive capacity of this sub-sector is extremely low because little has been done in the past to increase it. Major efforts by the Government are needed in developing appropriate programs, particularly in agricultural credit and extension services, if capital expenditures in this priority area are to be significant during the 1970's. The difficulty is that most of the rural population in the traditional sector works on marginal and sub-marginal lands. The major question of development strategy for the 1970's is how much should be spent on traditional agriculture and/or on industrial activities so that the excess rural population is absorbed.

E. Can It Be Done?

67. Total outlay is projected at DA 3.6 billion per year ($720 million) in 1967-1970, compared to only DA 1.4 billion ($300 million) yearly in 1963-1965. Can any country treble its public development expenditure in such a short period?

68. This question cannot be answered. The expenditure level in the past three years is not a proper yardstick: it was a period of upheaval, of massive change in the management of the economy, of adjustment to new conditions and of financial constraints. The pre-independence period is also a poor yardstick. In the peak year 1960, capital outlay under the Constantine Plan reached NF 4.2 billion, which is considerably more, in real terms, than are now here projected for 1967-1970: but this was done under a completely different development administration, and also, money was apparently provided quite freely.

69. The only thing which can now be said is that a significant part of the projected expenditures - DA 6 billion out of the total of DA 14.5 billion - will in a sense take place "outside" the Algerian economy: this refers to oil and gas investments. These outlays will have to be organized and disbursed by the oil companies and international contracting firms. The absorptive capacity problem is concentrated in the remaining DA 8.5 billion. Can Algeria step up its investment expenditures outside petroleum from DA 1.1 billion yearly in the recent past to DA 2.1 billion in the next four years?

70. If bets were placed, the odds would be against the projected expenditure level. On the other hand, this level is probably not completely out of reach. But in order for the projected order of magnitude of the expenditures to be even approximately approached, a major and urgent review of the working of the Algerian development administration is needed.

71. Another condition for carrying out the projected capital expenditures, of course, is finance.

CHAPTER IV

THE FINANCE

A. The Problem

72. In the last three years, all public capital expenditures were financed by borrowing, external and internal. The Government did not generate any current surplus in its fiscal accounts, while cash generated by publicly-owned enterprises was negligible or non-existent. Foreign assistance consisted mostly of French aid; a moderate assistance program was also operated by the U.S. Government. Internally, the Government borrowed mostly from the Central Bank, but a considerable amount of treasury bills were also sold to the banking system and insurance companies which had surplus cash.

Table 2: Financing of Public Development Expenditure 1963-1965

	1963	1964	1965
Public Development Expenditures	1,167	1,565	1,440
Plus Deficit on Current Budgetary Account	822	- 45	72
Total to be Financed	1,989	1,520	1,512
Financing			
External Assistance	1,618	607	588
Internal Sources			
Central Bank Advances	49	853	290
Drawdown of Cash Balances	17	-74	313
Treasury Bills Sales	208	57	211
Borrowing from Banking System	40	20	75
Cash Generation of Public Enterprises	57	57	35
Total Internal Sources	371	913	924
Total Financing	1,989	1,520	1,512

73. The past financing pattern will obviously be unsuitable for the very much larger level of public development expenditures which is now envisaged. It is true that barring drastic changes, the Government can probably count on continuing assistance from abroad in amounts tentatively already suggested or firmly contracted for; and it is also true that future petroleum revenue will be much larger than in the past. Nonetheless, the financial problem will be formidable. In order to show its magnitude if the past financing pattern continues, the following illustrative estimates of funds available to the Government has been prepared.

Table 3: Financing of Public Development Expenditures, 1967-1970: No Changes in Pattern Assumed

	Actual 1965	1967	1968	1969	1970	Total 1967-1970
External Financing						
Drawdown on Existing Loans /1		496	448	424	400	1,768
Drawdown on Probable Assistance /2		791	817	1,009	726	3,343
(1) Total External Fiance in Sight	588	1,287	1,265	1,433	1,126	5,111
(2) Current Budgetary Surplus	- 72	287	151	183	553	1,474
Current Government Revenue	2,903	3,662	3,906	4,476	4,907	16,951
Petroleum	447	850	901	1,265	1,474	4,490
Others	2,456	2,812	3,005	3,211	3,433	12,461
Current Government Expenditures	2,975	3,375	3,755	3,993	4,354	15,477
Total (1) + (2)	516	1,574	1,416	1,916	1,679	6,585

/1 Including drawdown on French participation and loans for crude oil research and development.

/2 Including drawdown on probable French aid, U.S. assistance and frame agreements, mostly with centrally-planned economies.

74. Government revenue from sources other than petroleum have been assumed to increase quite rapidly, at 7 per cent per annum. This is the same as the assumed rate of growth in GNP, which is in turn postulated on the assumption that investment expenditures will increase sharply and induce rapid economic revival. Even on this assumption and with the foreseen growth in petroleum revenue, current budgetary surpluses will be small given the assumed level of recurrent expenditures. If it is further assumed that cash generated by public enterprises will be negligible - in line with the past experience - total available resources, domestic and foreign, would be DA 6.5 billion over the four-year period. Since possible public development expenditures have been estimated at DA 14.5 billion, the financial gap would work out at DA 8 billion. Furthermore, since there will be additional government expenditures on financing inventories of unsold wine (about DA 250 million per annum), the uncovered gap to be financed by borrowing, domestic and external, could approach DA 9 billion, or almost $2 billion.

B. Possibilities of Adjustment

75. It should be made clear that the preceding figure is not the Government's projection of the gap. It is only a logical extrapolation of the past position, prepared by the Mission, without introducing any changes of policy. In effect, the Government is already undertaking some changes and considering others. They are focused on increasing the current budgetary surplus and on improving the efficiency and profitability of public enterprises. It is not possible to work out a financing plan for public development expenditures until these changes are completed. What can be done, however, is to indicate where the main areas of financial adjustment lie, how significant they are and how painful they will be.

(a) Government Revenues

76. Given the already high ratio of tax revenue to GNP, room for increase is limited, especially through increasing tax rates. However, improvements are possible: administrative machinery can be strengthened; the already declared policy concerning equal taxation of public and private enterprises should be implemented resulting in a higher tax revenue from the public sector; customs duties can and should be substantially raised through a tariff reform to be introduced as soon as possible.

77. The aggregate effect of these changes could be increased revenue of, say, about DA 1 billion over the four-year period. Tax revenue from public enterprises may amount to about DA 360 million, based on the budgetary provision made in 1965 and allowing for further increases in net income to be generated in the future. Customs duties may yield at least an additional DA 300 million. An adjustment in exemptions on personal income tax can generate an additional DA 150

million. An improvement in the financial administration should yield an excess of DA 200 million over the four years. Alternatively, if customs duties are raised soon and substantially, most of the increase of 1 billion could be found there.

(b) Recurrent Expenditures

78. The main problems of the Algerian Government finances occur in this category.

Table 4: Government Recurrent Expenditures

		Extrapolation				Total
	1965	1967	1968	1969	1970	1967-1970
Regular Expenditures, of which:	2,045	2,279	2,559	2,797	3,158	10,793
Education	596	763	876	1,002	1,155	3,796
Administration	592	724	785	852	959	3,320
Defense	480	529	555	583	612	2,279
Subsidies, of which:	531	531	531	531	531	2,124
To Enterprises	252	252	252	252	252	1,008
To Local Authorities	243	243	243	243	243	972
To Others	36	36	36	36	36	144
Transfers, of which:	399	565	665	665	665	2,550
Medical Assistance	85	85	85	85	85	340
War Veterans /1	201	400	500	500	500	1,900
Unemployment Relief	90	55	55	55	55	220
Retirement Fund	23	23	23	23	23	90
Total, Recurrent Expenditures	2,975	3,375	3,755	3,993	4,354	15,477

/1 Statutory obligation.

79. At present, almost DA 1 billion, or one-third of the regular budget and some 7 per cent of GNP, are transferred through the budgetary system as subsidies and assistance payments. If an allowance is made for the statutory increase in war veterans pensions and if other subsidies and transfers remain unchanged, the total over the four-year period works out at DA 4.8 billion. Of this some DA 2 billion is a statutory commitment which cannot be altered. It is in the remainder, DA 2.8 billion, that the Government has to look for savings. Only a most careful review, item by item, could indicate where they are possible. But it is probably safe to suggest that the amount of subsidies to enterprises could and should be reduced; and that a gradual reduction can and should take place in the present quite generous medical assistance programs.

80. Another area where savings are possible is in the regular expenditures of the Government. They are largest in education, general administration and defense. Administrative expenditures will have to increase as development expenditures rise and as some needed improvements take place in the salary scales. Education expenditures will also have to rise given the immense needs for training. The question is whether it will be possible to restrain the rate of increase in primary education, in purely administrative services, and in defense.

81. A minimum target which it seems feasible for the Government to aim for would be DA 1 billion over the four-year period. This can be achieved, and possibly more, if the economy picks up. If the present stagnation continues, it is difficult to see how subsidies and transfers can be reduced without running the risk of dissatisfaction and unrest.

(c) Public Enterprises

82. Another source of additional funds compared to the past is cash generation in public enterprises. The most important will be the government-owned petroleum company which operates the pipelines. Cash generation of the company over the four-year period could reach DA 1.1 billion on the assumption that the fourth pipeline is built during the period under consideration. An additional 0.9 billion can be generated in government-owned manufacturing plants and public corporations, on the assumption that efficiency in manufacturing is substantially improved and the capacity is much better utilized and that public corporations move towards more adequate pricing for their services.

83. With the adjustments set forth above, the gap would be considerably reduced:

Table 4: Possible Public Development Expenditures and Financing 1967-70

Public Development Expenditures	14,452
Accumulation of Inventories of Wine /1	975
Total to be Financed	15,427
Financing:	
External Finance in Sight	5,111
Current Budgetary Surplus, extrapolated	1,474
Additional Tax Revenue	1,098
Savings in Subsidies and Recurrent Expenditures	1,000
Cash Generation of Public Enterprises	1,991
Total	10,674
Gap	4,753

/1 Including needed additional storage capacity.

C. The Gap

84. A part of the gap can be financed by Government borrowing on the domestic market. This can be provisionally estimated at about DA 1 billion over the four-year period:

Table 4: Government Borrowing on the Domestic Market

Borrowing from the Public		480
Gross Borrowing	800 /1	
Less Lending for Fixed Capital /2	320	
Borrowing from the Central Bank		570
Possible Increase in Money Supply /3	1,770	
Less Increase in Foreign Exchange Reserves/4	600	
Less Financing Inventories /5	600	
Total Domestic Borrowing		1,050

/1 Comparable to the annual level of 1963-1965.

/2 Assumed financing of two-thirds of private investment in non-petroleum sector after allowing for self-financing and distribution of profits. The financing could be done either by CAD (Caisse Algerienne de Developpement) or by other banks.

/3 Eight per cent increase per annum, slightly faster than GNP growth rate.

/4 Increase needed to keep in 1970 the same ratio of reserves to non-capital goods imports as in 1965 (32 per cent).

/5 Changes in inventories other than wine, equal to 9 per cent of annual increment of GDP excluding agriculture (1954-58 ratios).

85. Implied above is considerably smaller deficit spending than in the past. At present, there is evidence that there is excess liquidity in the economy. Also, part of domestic credit will have to be used to finance an increment in foreign exchange reserves: the present gross reserves, at $180 million, are less than 3 months' imports, and as imports grow they will also have to grow. The above allowance is a minimum.

86. The external uncovered gap would then work out at DA 3.7 billion (4.7 total gap less 1.0 billion domestic borrowing) or $750 million over the four-year period. This amount is on a disbursement basis. Commitments will have to be larger, since the execution of a number of projects will spill over beyond 1970. There is no point in working out the detailed calculation at the present time: it would in any case be inexact, partly because of the illustrative nature of the whole financing calculation set forth above, and partly because only further detailed analysis of the exact status of feasibility studies could indicate the precise time schedule of execution of particular projects. The only thing which can now be said with reasonable safety

is that the commitments would have to approach or exceed $1 billion.

87. A part of this amount will have to be contracted with foreign private partners in the form of equity participation. This is certainly the case with gas investments and also with fertilizer plants. How much this equity proportion would be depends on the general policy of the Algerian Government on the one hand and on the minimum demands of foreign partners for a share in control and management on the other. There is as yet not sufficient experience in this type of deal to warrant an estimate of the equity-loan proportions of the needed capital inflow.

88. Another issue which requires further analysis concerns the type of foreign finance Algeria will need. Some projects have a very high foreign exchange component: this is particularly the case with the gas export project. In others, the foreign exchange component is quite low, e.g. irrigation, education. Some sectors will attract foreign finance much easier than others, e.g. gas exports project vs education, housing, health, etc. What can now be said with reasonable certainty is that the problem of financing local currency expenditures will most likely arise. Total import requirements of capital goods over the four-year period are estimated at some DA 10.5 billion. The resource gap (equivalent to "foreign finance in sight" plus the "uncovered gap") works out at some DA 9 million. Since part of the capital goods will be necessary for projects which foreign lending agencies and partners are not anxious to finance, the foreign exchange component of "bankable" projects will be considerably less than DA 10.5 billion and quite possibly less than the resource gap of DA 9 billion. The local currency shortage will most likely be particularly felt in the earlier years: domestic construction will have to start first, leading to an expansion of money incomes and to increased demand for imports of consumer goods; similarly, better utilization of industrial capacity will induce increased demand for new materials and spare parts. Such demand cannot be met by the provision of foreign exchange for equipment of bankable projects.

D. Qualifications

89. The tenuous and illustrative nature of the above calculations should be emphasized. For example, if the fourth oil pipeline is not built, this would reduce capital expenditures and thus the claims on resources by DA 600 million, plus some research and development expenditures; but the adverse effect on domestic resources may be greater, about DA 1,200 million: the projected government petroleum revenue would fall off and cash generation by the Government-owned company operating the pipeline would be reduced. The gap would thus most likely widen.

90. Another element of uncertainty refers to the so-called frame agreements of foreign assistance. Most of the amounts involved have been shown under "External Finance in Sight", in the expectation that they will be attached to the projects which have been included in Table 1. But this is uncertain, as the past experience shows, and the "uncovered" gap may turn out larger than the DA 3.7 billion indicated earlier.

E. Summary

91. If the Government decides to plan for an expenditure level of around DA 15 billion in the four years 1967-1970 and if the finance plan it decides to adopt carries a resemblance to the illustrative exercise shown in this chapter, the proportions of domestic and external finance would work out as follows:

	DA billion	Per Cent
External Finance	8.8	58%
In Sight	5.1	
Uncovered Gap	3.7	
Domestic Finance	6.5	42%
Extrapolated	1.5	
Resulting from Policy Changes	4.0	
Domestic Borrowing	1.0	
Total	15.3	

92. The proportion of domestic finance of 40 per cent would be a great achievement for a country still in a recovery stage. It could be argued that somewhat less would be satisfactory.

CHAPTER V

EFFICIENCY

93. Neither the illustrative financing pattern outlined in the preceding chapter nor the level of development expenditure as described in Chapter III can be carried out without considerable improvements in the efficiency of the Algerian economy and in the functioning of its development administration.

94. The Mission has been informed that the Government is now reviewing the decision-making machinery concerning investment projects and sectoral programs. This is urgently needed. If the country is to undertake a capital expenditure level almost three times higher than in the past, decisions will have to be made much faster than in the past. This refers to programs both in the commodity-producing sectors and in infrastructure and to projects both with and without foreign financing.

95. Domestic resource generation envisaged in the illustrative financing pattern cannot be realized unless the operation of the publicly-owned sector is put on a self-sustaining and market-oriented basis. For manufacturing, this means that losses will have to be reduced, taxation effectively applied and profits generated. These results cannot be achieved unless the powers of management are widened, labor discipline tightened and necessary economies attained in the purchase of inputs. The cost structure of manufacturing is now unfavorable, with a disproportionate share accounted for by labor cost. In agriculture, the present credit system will have to be reorganized. At the present time, the nationalized farm sector operates under a system which equalizes income throughout the country, irrespective of production results. It penalizes efficiency by giving equal rewards to inefficient farms.

96. Some sectors of the Algerian economy operate at present under a price structure which does not reflect full cost. This is the case with power and housing: power rates and rents do not ever cover operating costs. The result is that no depreciation is accumulated, no interest is earned and maintenance is neglected. In water supply and irrigation, only about one-half of the prescribed charges is collected. This results in a large need for subsidies which reduce the ability of the public sector to generate public savings. The other result is that a distortion is introduced in the allocation of resources.

97. The two major problems which the Government faces is how to reduce the volume of subsidies and transfers and how to assist industry and agriculture to improve their competitive positions. For industry, an increase in import duties seems urgently needed. For agriculture, an increase in farm prices is necessary. For both, reduction in costs is required if they are to restore the competitive position and start to accumulate capital. Reduction in costs means reduction in wages; reduction in subsidies and transfers means reduction in the standard of living of the recipients; transition to full-cost pricing means higher prices. These are all difficult measures to adopt and even more difficult to carry out.

98. It is unlikely that any of them can be carried out unless the employment situation improves. As indicated in the sectoral volume on housing, but applicable to some other sectors as well:

"The Government must also address itself, and with urgency, to the problem of adequate pricing for housing services. Until now, and for a number of reasons, the rents charged on Government-managed housing have been below maintenance cost .... The Government is aware that this situation cannot be allowed to continue if the housing of the country is to be saved for future use. The problem is that it is not only politically unpopular but physically impossible to collect economic rents - or any rents for that matter - if the inhabitants are unemployed. Of course, not all are unemployed, but a significant portion are. In order to avoid charging those who are unemployed, no charges are levied even on those who earn regular incomes and can pay: the result is rapid deterioration of the capital stock due to insufficient maintenance and repair, while at the same time, the people who can be engaged to do maintenance and repair are unemployed."

"It is a vicious circle ... Solutions in fact can be offered. If concerted action can be taken to lift the level of investment, current economic activity, employment and nominal and real incomes throughout the economy - which is the major theme of the Mission's Report - it should be possible simultaneously to introduce proper pricing - which means higher rents - for housing. It is probably impossible to move immediately to full cost pricing, i.e. to have the rents cover cash operating cost plus depreciation plus interest: but it seems both imperative and feasible to cover cash operating cost and depreciation. There will, of course, be emergency cases - and many - where the inhabitants will still be unable to pay because they will still be unemployed. It is not necessary that they be evicted. Their rents can and should be paid by the Government, out of a special budgetary welfare item, established for this purpose. At least then it will be known how much subsidy is paid out and the Government will be able to focus its attention on reducing the subsidy (through relocation of people to areas with better employment opportunities and/or through promotion of activity in the locations with heavy unemployment). At the same time, since subsidy will have ceased to be financed by the housing sector itself (through uneconomic rents), the latter will have enough funds to carry out the needed maintenance work. This seems to be the only way to save the beautiful apartment buildings, erected with so much care and clustered on the hills of Algiers and of other major cities, from destruction which is their sure prospect if the present situation is allowed to continue."

99. Algeria needs a rapid transition to higher investment in order to create a basis for rapid long-run growth, to attack unemployment and to restore full-cost pricing. Increase in investment requires large foreign capital inflow and greater domestic expenditures. For large foreign capital inflow to materialize, the Government must find a modus vivendi with foreign capital, both the new one interested in coming to Algeria and the old one already invested in Algeria: clarity of government policy with respect to the operations of foreign enterprise and the liberty that it transfers profits abroad seem essential pre-conditions for large capital inflow. For the government to engage in larger domestic expenditures, the balance of payments and the competitive position of the domestic economy must be protected. This requires import duties and export subsidies. They are needed even at the present time: they would be doubly needed if domestic expenditures were to rise substantially in order to meet the local cost of the substantially expanded investment outlay.

100. An increase in domestic expenditures, associated with higher import duties and export subsidies, would lead to higher domestic prices. Provided wages and subsidies and transfers remain unchanged, the consequence would be a reduction in real production costs and in real expenditures of the Government: the aggregate living standard and employment would increase but the real wage of those that are already employed would fall. Both from the economic and from the social point of view this would be a welcome development. On the other hand, given the strength of the trade unions, any reduction in the unit real wage would be strongly resisted and could easily lead to a wage-price spiral. If that were to happen, a very uncertain and risky future would be facing Algeria.

101. If Algeria could obtain funds from abroad to finance local currency expenditures as it moves to a much higher level of investment outlay, this danger would be avoided. If it cannot obtain such funds, there does not seem any other choice than to let prices rise and keep wages frozen. This is difficult, but the alternatives are worse: unchanged level of investment and no improvement in the state of unemployment, or increased investment with inflation. The fundamental point is that a country cannot get out of an under-employment equilibrium without a number of people - those already employed - getting hurt somewhat, so that the country as a whole - those unemployed included - get better off. Only if it obtains additional and reasonably freely usable funds can most people be better off.

102. This report advocates decontrol, and most decontrols cost.

CHAPTER VI

GROWTH AND STRUCTURAL CHANGE

103. If it proves possible to organize an investment effort of the magnitude and composition described in Chapter III, and if it proves feasible to carry out the efficiency measures suggested in Chapter V, the Algerian economy should achieve quite high growth as it approaches 1970. The Mission's projections indicate the possibility of a GNP growth rate exceeding 7%: this is very much higher than in the last few years, but below the boom years 1954-1958. The crucial assumption is that industrial revival will take place under the impact of greater investment outlay and of the associated increase in demand. A further assumption is that nothing will interfere with the continuing growth of petroleum and with the development of the gas resources of the Sahara.

104. Exports are projected to grow at almost 10% p.a., faster than gross product. On the assumption that necessary external financing for the possible projects can be assured, imports would rise even faster, about 13% yearly. The Algerian economy which is already very much an open economy would become even more so: in 1954, exports accounted for 21% of GDP, in 1964 they reached 27% and for 1970 they are projected to exceed 30%.

105. Rapid growth in exports, supplemented by the projected capital inflow as it results from the estimated resource gap, yields a capacity to import which appears sufficient to accommodate the different streams of import demand as they can be projected at the present time. An import sufficiency test has been carried out: it indicates that despite the very large increase in the imports of capital goods associated with the projected capital expenditures, a sufficient import capacity would be left for the purchase of consumer goods, intermediate products and raw materials. The demand for consumer goods is expected to be dampened as a result of import substitution. The demand for fuels will virtually disappear, as a result of domestic growth in petroleum refining and in gas deliveries. Conversely, there will be a rapid increase in import demand for intermediate goods and raw materials, following the projected revival of industrial activity: it appears that such demand can be met. However, import projections by necessity reflect technological relationships and they assume smooth growth. Any deviations from such growth - and they are probably inevitable in an industrial revival which is associated with sudden emergence of bottlenecks - would reflect themselves in the pressure on the balance of payments. In any case, however, if major investment expenditures are undertaken, the Algerian import structure will undergo a major structural change: capital goods and raw materials will greatly gain in importance. This will make the import structure more rigid than in the past: this is an inevitable result of growth and structural change in the particular development phase in which Algeria finds itself at the present time.

106. Another consequence of the industrial revival and of the petroleum boom would be a shift in the composition of output in favor of secondary and tertiary activities. Due to severe external marketing problems facing the export agriculture and the lack of capacity of the traditional agriculture to absorb capital in the near future, agricultural growth is likely to lag considerably behind the rest. Investment in agriculture which can now be made will primarily serve to replace the old capital stock and to prepare the ground for the longer-run future (irrigation): they must be made. In the meantime, much thought must be given to how traditional agriculture can best be helped.

107. The strategy of growth for the next several years can and should emphasize the commodity-producing sectors. Infrastructure is available in almost all sectors. In the 1970's the situation will change as the economy grows and outruns the existing overhead facilities. Also in the 1970's most of the expenditures for the Trans-Sahara Highway will occur, if it is decided that this is a worthwhile investment. The idea to connect the coasts of North and West Africa by a road traversing the Sahara Desert is not new: but it has now attained additional impetus by the emergence of new land-locked states south of the Sahara and by the possibility of reviving, under modern conditions, the old trade network throughout Africa.

108. If the projects now in sight are implemented, the investment rate would go up substantially, from about 15% of GNP at present to 22% in 1970. This was the rate of the late 1950's and early 1960's. The external gap would widen, from about 2% of GNP in 1963-64 to about 10% in 1969-1970. Gross public savings are projected to increase sharply from the present very low level: whether this will materialize will depend on whether the Government will be successful in carrying out major efficiency reforms and in moving the economy sharply upwards from its present almost stagnant state.

109. Another structural change is in store for Algeria: as it imports capital on a substantial scale, it will inevitably become a large international debtor. At the present time, its newly incurred debt is low and debt service does not create any liquidity problems: the present debt service is $12 million and the associated debt service ratio is 2% of net exports (net of investment income payments on petroleum account). The ratio will rise to about 4% in 1970, based on debts already committed. With the additional capital inflow and the associated debt service, resulting from foreign financing of capital expenditures listed in this report, the debt service in 1970 may approach $120-160 million, or 12%-15% of projected net foreign exchange earnings, assuming a blend of the present terms of different streams of assistance as they can now be envisaged. This is not an excessively high value compared to the ratios now experienced by major international debtors: whether it is supportable for Algeria over the long-run depends on its long-run growth prospects, a matter which requires a separate analysis. In any case, however, the room for conventional

borrowing is substantial, on the assumption that the economy will experience industrial revival, that investment activity will expand and that the associated alleviation of the unemployment problem will take place.

CHAPTER VII

CONCLUSIONS

110. Algeria is at present in a transitional stage, in many respects. It has completed much of the reconstruction and it is now engaged in preparing many worthwhile investment projects and programs; but it has not yet embarked upon a major development effort. It still operates on emergency economic systems in which the Government transfers large amounts of subsidies and assistance and in large sectors of the economy prices do not reflect full costs; but the Government is now reconsidering the system with the view of introducing market incentives, restoring the profitability calculus and reducing transfers and subsidies. While it is a declared policy of the Government to pursue the goals of the socialist economy and to have the state hold the commanding positions in major new industries, the best international management consulting firms are now engaged to advise on the methods of running public enterprises and there is an active search for a modus vivendi with international private capital in order to attract it to Algeria. While the pre-independence level of output has been almost restored, against all odds, thanks to great domestic effort, and also to continuing French assistance, the economy is still operating considerably below capacity and unemployment is a grave social and political problem. The present level of investment and building activity is low; at the same time, Algeria has outstanding natural resources waiting to be exploited for the export market, and great domestic needs impatiently press upon the Government.

111. A study of the Algerian economy is a study in contrasts. It is an economy with great promise, currently caught in a circle of conflicting trends and suffering from a depressed level of economic activity.

112. The circle can be broken. Algeria needs to de-control the economy, in a package of measures which would embrace: a large investment program; expansion of effective demand on the home market and a progressive increase in capacity utilization; increase in import duties and introduction of export subsidies; a series of efficiency measures to restore market incentives and profitability and to reduce the need for subsidies and transfers; and a large foreign capital inflow, including most probably funds for financing local currency expenditures.

113. As a part of the same package of measures, Algeria will have to be prepared to temporarily import a considerable amount of foreign skills, while undertaking at the same time radical measures to accelerate the production of demestic skills and thus reach a true economic independence in the shortest possible time. Algeria will also have to improve the treatment of whatever foreign private capital has still remained in the country and to accelerate the arrangements for importing new private capital to assist in the exploitation of its resources. Transition to a much higher investment level, which is the key for getting out of the

present difficulties and for assuring a sustained long-run growth at a rapid rate, is not possible without foreign assistance, both financial and in skills.

114. Is Algeria ready for a much larger investment effort and for de-control? De-control is already in the air: it is now realized that socialist ownership of the means of production will not be threatened if full-cost pricing is restored and if rewards are differentiated among farms, plants and departments depending on performance. The possibilities of undertaking a major investment effort are also discussed: the critical issues here are whether the young Algerian development administration can stand the strain and whether the outside world is prepared to provide financial assistance on a large scale and in forms that are needed. De-control and the transition to a much larger investment effort supported by foreign assistance are probably inseparable. Any de-control involves changes in income distribution: and unless it is certain that the majority of the population will be better off, over the short-run as well as over the long, the resistance to de-control will be great.

115. At least some of the answers to these questions are in the hands of the Algerian Government. It is they who have to come out with a program of investment, a finance plan and a series of policy measures to carry them out and to restore incentives. Only then will it be possible for the international community to consider how much assistance can be given and in what form. The first step for the Algerian Government to consider and decide is whether its development administration can carry out the major increases in responsibilities involved in preparing and executing a development plan. This in turn depends very much on whether the Government as a political body is now in a position to adopt the goals of investment and growth as a single over-riding objective of national policy: it is only in such an environment that the development administration would enjoy all the political support it badly needs.

116. After the decisions of the Government have been made, it will be up to the outside world to respond. It had responded only to a limited extent to the Algerian needs for reconstruction. Perhaps it will respond more to its development needs. Whatever may be said about Algeria's past performance, the fundamental fact stands out that it has become progressively less dependent on foreign support as its reconstruction has proceeded. With respect to future prospects, Algeria is one of the lucky winners in the foreign exchange lottery in which developing countries participate: Algeria has oil and gas, the latter is of excellent quality, and its population of about 12 million is relatively small in relation to resources.

117. One of the major problems to be overcome - perhaps the greatest single problem - is in ideology and in understanding. Most providers of capital, both from the West and from the East, have misgivings concerning

the economic system Algeria wants to operate; Algeria, on its part, is suspicious of the intentions of the providers of funds. The truth of the matter is that neither the providers of funds nor Algeria can possibly know what economic systems will finally emerge in Algeria, or for that matter in any developing country. The difficulties implied in this inevitable and inherent uncertainty are further compounded by the lack of information about current developments and intentions: dangerous and superficial generalizations are made on the basis of limited and piecemeal information.

118. If this report can contribute to better understanding, it will have achieved one of its major purposes.

STATISTICAL APPENDIX

List of Tables

TABLE 1

GROSS DOMESTIC PRODUCT BY SECTOR, 1963-1964

(Current price, million DA)

	1963		1964	
	Gross value of output	Value added	Gross value of output	Value added
Agriculture, fisheries, forests	3,826	2,731	3,299	2,294
Energy	289	230	314	251
Petroleum	2,969	2,180	2,927	2,263
Mining and quarrying	204	112	227	127
Construction	1,079	552	1,130	539
Food	1,432	420	1,480	450
Engineering	252	101	348	164
Textiles and leather	429	151	496	179
Chemicals	395	159	566	227
Transportation	616	424	623	429
Government	-	2,500	-	2,800
Services	1,509	1,148	1,526	1,161
Commerce	3,186	2,837	3,381	2,990
Gross domestic product		11,045		13,874

Source: Ministry of Finance - Plan Directorate, and Mission's estimates

TABLE 2

GROSS VALUE ADDED, 1950-1964

(Million NF or DA)

	Agriculture and related activities	Industry, energy & mining	Services and commerce	Total value added	Total value added at constant prices (1957=100)
1954	1,993	1,611	2,306	5,911	6,450
1955	1,934	1,696	2,564	6,194	6,640
1956	2,395	1,834	2,930	7,159	7,310
1957	2,573	2,032	3,534	8,138	8,138
1958	2,503	2,516	4,401	9,416	8,430
1959	2,690	3,130	5,390	11,210	9,973
1960	2,800	4,400	5,000	12,450	10,650
1961	2,300	4,400	4,700	11,900	9,892
1962	2,700	3,900	3,600	10,200	8,479
1963	2,731	3,814	3,985	10,954	8,701
1964	2,294	3,185	4,151	11,059	8,448

Source: Ministry of Finance - Plan Directorate and Mission's estimates

TABLE 3

GROSS FIXED CAPITAL FORMATION BY SECTOR

(Current prices, million DA)

	1963	1964	1965
Agriculture, fisheries, forests	87	180	176
Mining			
a) Petroleum	640	513	770
b) Other	19	55	87
Industry			
a) Hydrocarbons	302	266	302
b) Other	241	329	n.a.
Transport and communications	172	262	270
Power	67	79	65
Water supply	148	121	113
Tourism	1	29	28
Housing	50	138	35
Education and Health	129	161	170
Administrative buildings	28	39	23
Other	151	9	
Total	2,035	2,181	

Source: Ministry of Finance - Plan Directorate and Mission's estimates.

TABLE 4

PRODUCTION OF MAIN AGRICULTURAL ITEMS

(thousand metric tons)

	1960	1961	1962	1963	1964	1965
Wine (thousand hectoliters)	15,851	13,632	12,279	12,575	10,477	16,267
Hard wheat	1,161	526	1,223	1,268	918	1,000
Soft wheat	345	160	384	322	245	318
Barley	835	212	819	691	278	378
Potatoes	259	234	n.a.	262	232	232
Citrus fruit	398	370	368	398	464	415
Olive oil (thousand hectoliters)	199	220	209	187	187	181
Dates	98	n.a.	n.a.	n.a.	113	110
Pulses	43	27	n.a.	29	39	n.a.

Source: Ministry of Agriculture

TABLE 5

PRODUCTION OF SELECTED INDUSTRIAL GOODS

	1960	1961	1962	1963	1964	1965
Iron ore (thousand tons)	3,438	2,863	2,059	1,976	2,745	3,147
Crude oil (thousand tons)	8,627	15,782	20,681	23,878	26,484	26,477
Sulfur (tons)	1,342	488	170	468	1,366	2,515
Footwear (thousand pairs)	n.a.	n.a.	2,300	n.a.	4,464	7,565
Rolled steel (tons)	40,446	31,113	7,474	7,465	16,731	28,870
Metal working (tons)	-	-	1,873	3,143	2,892	3,209
Caps and containers (tons)	6,817	7,657	4,700	4,520	5,006	4,582
Private automobiles (units)	-	2,087	2,056	3,198	3,564	4,496
Cotton fabrics (thousand sq.m)	n.a.	441	n.a.	n.a.	2,011	1,319
Flour (thousand tons)	n.a.	n.a.	n.a.	250	299	355
Lump sugar (tons)	n.a.	n.a.	n.a.	750	955	5,319
Beer (thousand bl.)	n.a.	n.a.	818	500	280	369

Source: Algerian Ministry of Industry

TABLE 6

GOVERNMENT EXPENDITURES AND FINANCING

(DA million)

	1963	1964	1965
Deficit on Current Budget	822	-45	72
Current Receipts	2221	2697	2903
Less Current Expenditures	3043	2652	2975
Development Expenditures	753	1168	986
Total to be financed	1575	1123	1058
Internal Sources	167	867	824
Central Bank Advances	49	853	290
Sale of Treasury Bills	208	57	211
Changes in Treasury Balance	-90	-43	323
External Sources	1408	256	234
French Treasury	468	-388	-290
Foreign Aid	940	644	524
Total Financing	1575	1123	1058

TABLE 7

GOVERNMENT CURRENT REVENUES

(DA million)

	1963		1964		1965		1966	
	Estimate	Actual	Estimate	Actual	Estimate	Actual	Estimate	Actual
Direct taxes	658	489	563	583	710	619	675	
Indirect taxes	2016	1417	1925	1703	1850	1747	1800	
Turnover taxes	879	615	887	760	840	787	800	
Customs duties and export taxes	186	113	118	219	220	225	230	
Excise and other indirect taxes	951	689	920	724	790	735	770	
Non-tax revenues	220	72	144	111	270	90	205	
Total ordinary revenues (excl. petroleum)	2914	1978	2632	2397	2830	2456	2680	
Petroleum revenues	251	243	310	300	346	447	794	
Total Current Receipts	3165	2221	2942	2697	3176	2903	3474	

Source: Ministry of Finance

TABLE 8

GOVERNMENT CURRENT EXPENDITURES

(DA million)

	1963	1964	1965
General Administration	372	284	570
Foreign Affairs	15	35	44
Interior and Justice	239	262	277
Defense	369	428	484
Agriculture	64	76	78
Industry and Commerce	14	12	22
Transport, Public Works	227	111	141
Tourism	-	6	6
Education, Information	265	380	471
Other Social Service	673	562	654
Supplementary period	355	-	-
Total Ordinary Budget	2,593	2,156	2,767
Payments out of Treasury Accounts	450	496	208
Total Current Expenditures	3,043	2,652	2,975

TABLE 9

GOVERNMENT DEVELOPMENT EXPENDITURES

	1963		1964		1965	
	million DA	%	million DA	%	million DA	%
Agriculture	100.5	13	221.4	19	162.4	16
Water supply	119.2	16	142.9	12	102.3	10
Transport	99.9	19	263.0	23	211.6	21
Industry, power, mining	147.9	20	101.5	9	149.2	15
Housing and town planning	49.4	6	169.9	15	54.3	6
Administrative buildings	22.7	3	24.1	2	11.6	1
Education	110.3	14	146.0	12	148.1	15
Health	32.8	5	18.7	1	15.3	2
Tourism	1.1	-	34.1	3	93.2	9
Other	28.2	4	45.9	4	38.4	4
Total	753.1	100	1168.1	100	986.2	100

Source: Ministry of Finance, Caisse Algérienne de développement.

TABLE 10

MONEY AND BANKING

(Outstanding at end of the year, million DA)

	1962	1963	1964	1965
Currency in circulation	2,197	2,295	2,577	2,762
Demand deposits	1,774	1,588	1,931	1,988
Money	3,971	3,883	4,508	4,750
Quasi-money	145	88	84	106
Credit to the economy				
Central Bank	1,468	1,300	1,087	1,206
Banks	1,173	906	1,082	1,190
Claims on Government				
Central Bank	87	176	1,003	1,311
Banks	-	179	259	385
Others	393	299	464	505
Foreign assets (net)	911	1,136	878	760
Other assets (net)	-84	-26	-181	-501

Source: Central Bank of Algeria

TABLE 11

CENTRAL BANK OF ALGERIA

Balance Sheet

(Million DA)

	1963	1964	1965
Liabilities			
Capital	40.0	40.0	40.0
Currency in circulation	2,294.6	2,577.2	2,761.8
Deposits			
Government	136.3	626.0	227.2
Banks	160.7	194.4	218.4
Foreign liabilities	122.6	130.5	280.6
Other items (net)	116.9	156.7	201.1
Total	2,871.1	3,724.8	3,729.1
Assets			
Foreign assets	1,259.0	1,008.3	977.9
Claims on Government			
Advances	78.2	75.1	72.5
Postal checking accounts	146.6	1,498.8	1,391.8
Algerian coins	47.9	41.7	42.1
Advances to state enterprises	-	486.5	873.8
Rediscounts			
Treasury bills	40.0	14.1	39.0
Other papers	1,299.4	600.3	332.0
Total	2,871.1	3,724.8	3,729.1

Source: Central Bank of Algeria

TABLE 12

PRICE INDEXES

Wholesale price index, 1959 = 100
(214 items)

	1963	1964	1965
Agricultural products	108.7	115.2	120.0
Products of food industry	106.8	110.6	115.1
Other industrial products	116.3	127.5	134.5
Water and energy	100.2	110.6	110.1
Total	110.3	116.8	121.6

Cost of living index in Algiers, 1964 = 100
(167 items)

	October 1965	December 1965	February 1966
Food	105.8	106.5	106.3
Housing	100.2	100.4	100.8
Furniture	108.2	105.6	107.2
Clothing	103.2	107.6	108.8
Health	106.6	107.5	106.3
Transport	100.5	100.5	100.6
Miscellaneous	111.0	111.2	111.0
Total	105.2	105.9	106.1

Source: Ministry of Finance

Table 13

Balance of Trade

	Exports		Imports		Balance
	Total (DA million)	of which to France (percent)	Total (DA million)	of which to France (percent)	Total (DA million)
1960	2,753	84.1	6,371	83.2	- 3,618
1961	3,331	78.5	5,168	81.5	- 1,837
1962	3,910	77.3	3,846	77.8	+ 64
1963	3,407	74.0	4,340	76.3	- 33
1964	3,735	74.9	3,744	72.9	- 9
1965 1/	3,600	73.7	3,862	72.9	- 262

1/ Estimate.

Source: Algerian Ministry of Finance, French authorities.

Table 14

Volume and Value of Selected Exports

(f.o.b. values in million DA, quantities in thousand metric tons)

	1963		1964		1965 2/	
	Value	Quantity	Value	Quantity	Value	Quantity
Wine 1/	540	6,870	710	9,360	n.a.	n.a.
Fruits	280	315	209	275	200	230
Vegetables	70	116	35	56	33	54
Cereals & cereals products	75	256	98	390	n.a.	n.a.
Food Industry 3/	47	38	38	33	31	24
Petroleum and other Petroleum Products	1,935	23,680	2,170	25,625	2,000	25,500
Other Minerals	123	2,419	157	2,973	170	3,200

1/ In thousand hectoliters.
2/ Estimate.
3/ Excluding vegetable oil and derived products.

Table 15

Volume and Value of Selected Imports

(c.i.f. values in million DA - quantity in thousand metric tons)

	1963		1964	
	Value	Quantity	Value	Quantity
Live animals	66	20	64	16
Meat	48	10	41	7
Milk and milk products	142	54	140	55
Coffee	56	18	120	39
Cereals and cereals products	137	297	199	402
Sugar	183	193	213	232
Pharmaceutical products	85		110	
Petroleum and Petroleum Products	244	1,255	89	426
Textiles	513		602	
Metals and Metal Works	341		326	
Machinery and Equipment	531		468	
Cars and Tractors	232		206	

Table 16

BALANCE OF PAYMENTS

(Million D.A.)

	1963		1964		1965	
	Credit	Debit	Credit	Debit	Credit	Debit
A. Goods and Services						
1. Merchandise	3,407	4,340	3,735	3,744	3,280	3,862
2. Direct Investment Income, Net						
Private		352		422		427
Public		10	24		7	
3. Other Services		85		95		95
Net Goods and Services		1,380		502		1,097
B. Transfer Payments						
4. Private	534		647		700	
5. Official	875		680		640	
Net Transfer Payments	1,409		1,327		1,340	
Net Total (1 through 4)		846	145			397
Net Total (1 through 5)	29		825		243	
C. Capital Transactions						
6. Private Capital, Net	96			270		15
7. Official & Semi-Official, Net	701			110		102
Balance on Capital Movements	797			380		117
D. Net Errors and Omissions		826		443	126	

Source: Mission Assessment