

PD-ARB6-93/8

AGP' CY FOR INTERNATIONAL DEVELOPMENT
PROJECT DATA SHEET

1. TRANSACTION CODE
 A = Add
 C = Change
 D = Delete
 Amendment Number _____

DOCUMENT CODE
 3

2. COUNTRY/ENTITY
 Algeria

3. PROJECT NUMBER
 638-HG-001

4. BUREAU/OFFICE
 ANE/HG

5. PROJECT TITLE (maximum 40 characters)
 Algeria Housing Policy Program

6. PROJECT ASSISTANCE COMPLETION DATE (PACD)
 MM DD YY
 1 23 09 1

7. ESTIMATED DATE OF OBLIGATION
 (Under 'B.' below, enter 1, 2, 3, or 4)
 A. Initial FY 8 9 B. Quarter 4 C. Final FY 9 1

8. COSTS (\$000 OR EQUIVALENT \$1 =)

A. FUNDING SOURCE	FIRST FY			LIFE OF PROJECT		
	B. FX	C. L/C	D. Total	E. FX	F. L/C	G. Total
AID Appropriated Total						
(Grant)	()	()	()	()	()	()
(Loan) Housing Guaranty	()	()	()	(200)	()	()
Other U.S.						
1.				(10,000)	()	()
2.						
Host Country						
Other Donor(s)					200	200
TOTALS				10,200	200	10,400

9. SCHEDULE OF AID FUNDING (\$000)

A. APPROPRIATION	B. PRIMARY PURPOSE CODE	C. PRIMARY TECH. CODE		D. OBLIGATIONS TO DATE		E. AMOUNT APPROVED THIS ACTION		F. LIFE OF PROJECT	
		1. Grant	2. Loan	1. Grant	2. Loan	1. Grant	2. Loan	1. Grant	2. Loan
(1)	723	866				200	10,000	200	10,000
(2)									
(3)									
(4)									
TOTALS									

10. SECONDARY TECHNICAL CODES (maximum 6 codes of 3 positions each)

11. SECONDARY PURPOSE CODES

12. SPECIAL CONCERNS CODES (maximum 7 codes of 4 positions each)

A. Code _____

B. Amount _____

13. PROJECT PURPOSE (maximum 480 characters)

To increase the overall production of shelter, particularly for low income families, by supporting policy changes which encourage private sector participation and rationalize the role of government in the sector.

14. SCHEDULED EVALUATIONS

Interim MM YY MM YY Final MM YY
 0 1 9 1

15. SOURCE/ORIGIN OF GOODS AND SERVICES
 000 94: Local Other (Specify) _____

16. AMENDMENTS/NATURE OF CHANGE PROPOSED (This is page 1 of a _____ page PP Amendment.)

17. APPROVED BY
 Signature _____
 Title _____

Date Signed MM DD YY _____

18. DATE DOCUMENT RECEIVED IN AID/W, OR FOR AID/W DOCUMENTS, DATE OF DISTRIBUTION
 MM DD YY _____

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HOUSING SECTOR LOAN PROGRAM
638-HG-001

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I. EXECUTIVE SUMMARY

Since independence in 1962, Algeria has been a one-party state with a highly centralized economy, sustained for most of that time by oil revenues. With the collapse of oil prices in 1986, the government was forced to greatly accelerate a process of economic reform.

The GOA has been moving purposefully toward a more market-oriented economy. In 1987, the government began negotiating for the first time with the IMF and the World Bank, resulting in a stand-by agreement, drafted in May 1989, and a structural adjustment loan which was approved in August 1989. As part of those negotiations and on its own initiative, the GOA has curtailed public sector investment, restricted imports and established incentives for diversification of exports. A series of austerity measures were enacted to try to resuscitate the economy.

These measures, however, also created shortages of basic consumer goods, stimulated black market activities and generally affected the basic standard of living in the country. Austerity measures coupled with drought and water shortages set off rioting in Algiers and other cities in October 1988.

The commitment of the government to change is evidenced by its continued pursuit of reform despite the political dangers. President Benjedid has further accelerated the process of structural adjustment since the October riots. Laws are being introduced to reform the interventionist price system, and to open up the media and the one-party system through elections. Since December 1988, the army has resigned from the FLN's central committee; legislation enabling elections has been approved, a new constitution has been drawn up allowing for private property, human rights conventions have been adopted, and collective farms, covering 2.5 million hectares (about half of the total land under cultivation), have been transferred to a market basis.

It would be hard to overstate the difficulties in this transition period, given the breadth and scope of the transformations underway. The IMF, the World Bank and other donors are proceeding with care, given the complexity and the inter-relationships of the problems being addressed. Any one change, looked at in isolation, could have negative economic and social impacts which could jeopardize the process of reform.

A key U.S. goal in North Africa is to encourage stability in the region, enhance trade and investment opportunities for the U.S. and ensure the security of the strategic Mediterranean area. The current state of the Algerian economy and Government of Algeria (GOA) reform efforts create a climate where A.I.D. assistance can play a strategic and constructive role in supporting the ongoing reform process, notably in the areas of housing provision and private sector development. Current approved A.I.D. involvement includes a 416 program and a privatization seminar.

Following the riots in the Fall of 1988, (then) Vice President Bush sent a message of support to President Bendjedid indicating the willingness of the U.S. Government to help. In late 1988, the GOA requested U.S. technical and capital assistance. After review by State and A.I.D. of potential avenues for providing assistance, the Administrator decided to propose a Housing Guaranty Program (HG) since it provides a flexible resource for capital assistance and since housing is one of Algeria's more pressing needs. The Asia and Near East Bureau requested that the Office of Housing and Urban Programs explore the possibility of a modest HG Program which would be responsive to GOA concerns in the sector.

Several visits were made to Algeria to determine the feasibility of moving forward with a HG Program this year. After a series of analyses and consultations with the GOA it was determined that a HG loan would be appropriate both from a programmatic viewpoint, given the importance of the problems in the shelter sector, and from an economic viewpoint, i.e., the non-concessional HG resource was an appropriate tool for assisting Algeria. Although the Algerian economy continues to be vulnerable to changes in world energy prices, the medium term balance of payment prospects are favorable. Algeria has an excellent debt servicing record, despite its economic setbacks and the foreign exchange which will be made available under the Program will be useful in restructuring short-term debt. Given the reforms which are now underway, a program of \$10 million is not considered unduly risky at this time.

The HG Program is designed as a sector loan, which will support policy reforms which will assist the Algerians to introduce market forces in shelter sector decision-making, and to tap the considerable energy of the private sector. GOA decision-makers see liberalization of the economy as the solution to housing and other shortages, but they are also rightly concerned about the short-term political impact of any decision to eliminate a particular subsidy too abruptly.

The policy agenda to be addressed under this Program includes:

- creation of free land and housing markets through legislative changes and divestiture of publicly-owned housing stock;
- development of the private sector as providers of shelter;
- improved access to housing for low income families through implementation of alternative construction norms and standards consistent with prevailing seismic requirements;
- targeting of subsidies to low income families; and
- development of a viable housing finance system.

Each of these areas and the specific benchmarks discussed in Section III.B.3. has been discussed with and agreed to by GOA officials.

This Program will incorporate Algeria more fully into the A.I.D. (RHUO) sponsored ongoing dialogue with the United States and the other nations in the region about urbanization, housing finance and related matters. This dialogue has focussed on the appropriate division of labors between the public and private sectors, policy alternatives in the provision and pricing of basic shelter services and in the allocation of capital. Algeria is very interested in the Program, which provide practical guidance as they seek to apply the general principles of liberalizing their economy to the specific circumstances of the shelter sector. During the program, A.I.D. will gain deeper insight into the capabilities of the sector institutions and a more thorough understanding of the impediments (regulatory, financial, physical and managerial) which must be addressed to assure efficient functioning of the shelter sector. It is expected to be a good learning experience for both A.I.D. and Algeria. Algeria will benefit from the experience of other countries, and A.I.D. will better understand the practical considerations involved in the shift from centrally administered pricing and allocation of resources to a market-driven economy.

The HG Program will be implemented over a two year period. Ten million dollars in HG funds will be disbursed to the borrower of record, the Caisse Nationale d'Epargne et de Prevoyance, the National Housing Bank. In addition, \$200,000 in grant resources will be provided by A.I.D., split between PRE/H and ANE, to finance associated technical assistance and training. The Government of Algeria will contribute an additional \$200,000. An evaluation will be conducted within one year after signing the Implementation Agreement to assess progress toward meeting the policy benchmarks outlined in the Project Paper. Subsequent U.S. assistance to support the Algerian housing sector will be dependent upon the results of this mid-term evaluation and the overall availability of and competing uses for HG and A.I.D. grant resources.

II. PROGRAM RATIONALE

Since independence in 1962, Algeria has been a one-party state with a highly centralized economy, sustained for most of that time by oil revenues.

Independent Algeria inherited relatively well-serviced urban areas, but for almost twenty years thereafter, its economic policies focused on industrialization and exploitation of hydrocarbons to the virtual exclusion of the country's social/economic infrastructure. The result was a gradual deterioration of existing infrastructure coupled with increased demand as the population outgrew system capacities.

Recognizing that centralized economic planning had failed to meet the country's income and employment needs, the GOA began developing a broadly based development plan in the 1970s, with a focus on improving standards of living. In particular, the GOA began making large investments in urban infrastructure (roads, drainage, water, and sewerage). Nonetheless, investment lagged behind urban growth and could not be sustained because export earnings, which financed the national budget, fell. Among the more serious consequences of the lags in urban development was and is an acute housing shortage which has resulted in serious overcrowding and political unrest. With the collapse of oil prices in 1986, the government was forced to begin a process of economic reform. Since then, the GOA has been moving purposefully toward a more market-oriented economy.

In particular the Government has designated housing a priority sector and a key area where private sector participation in housing provision, financing and consumption is most urgently needed.

A. Housing Sector Overview

Total population in Algeria rose from 12 million in 1966 to an estimated 23.9 million in 1988. Since 1962, Algeria's urban population *grew an average 5.4% per year and urban population in 1987 was 11.4 million, 49% of the total population. Urban population growth has been particularly rapid in cities and towns adjacent to the three largest metropolitan areas: Algiers, Oran, and Constantine, where almost 41 percent of the total urban population is concentrated. The bulk of the population (91%) lives on 12% of the land, while the rest of the

*Defined as an urban conglomerate with at least 100 buildings.

country is sparsely populated. According to the 1987 Census, there were 3 million dwelling units in 1987. The number of persons per urban unit equaled 7.33, but the number of persons per household was only 6.77 in 1987, indicating that a number of households were sharing homes with other families. For Algiers, the figures were 6.92 persons per household, but 7.61 persons per unit.

Since 1979, the government has given greater attention to housing. It set a target of 200,000 new homes a year, even though the number of houses needed annually may be as high as 250,000 (to reduce overcrowding and accommodate new household formation). Since 1987, only an estimated 98,000 houses were completed each year by the formal sector, and the informal sector built roughly 15,000 units per year. An estimated increase of 150,000 in production per year is needed, as well as upgrading or relocation for another 100,000 units which have been built by the informal sector over the years.

The shortage of housing can be largely attributed to the inability of public sector institutions to effectively address demand and to laws and policies which have restricted individual initiative and private sector firms' participation in housing provision.

Housing production was generally carried out by public enterprises which in turn sub-contracted specialized work to private firms. In 1984, approximately 50% of all urban housing stock, and one third of Algeria's total housing stock, was government owned. Prior to 1989, only municipal authorities had the right to acquire, subdivide and develop land.

The management of public rental housing and the construction of new housing were the responsibility of two groups of specialized institutions: the 'Housing Development and Management Agencies' (OPGI's) which administer the public housing stock and develop new rental and owner-occupied municipal housing, and the 'Family Housing Development Agencies' (EPLF) which develop low cost housing units to be sold to owner-occupants.

Since there has been no demand for private sector services in anything other than subcontracting housing construction and related finishing work, there are no more than 10 private sector firms which could be considered full-fledged housing developers. Although private construction firms totalled 7,464 in 1987 or 88% of the total number of construction firms, in terms of employees,

the few public firms still dominate the industry, with public firms accounting for 85% of total employees and private firms only 15%.

Housing Finance is provided by CNEP (Caisse Nationale d'Epargne et de Prevoyance). CNEP was established in 1964 as a savings institution and has been active since 1971 in the housing finance sector. CNEP administers a housing savings scheme for the provision of mortgage loans. CNEP also administers, on a fee basis, Treasury funds allocated for development of public housing by OPGI's.

B. Housing Sector Problems

Although the housing problems faced by Algeria are numerous, the key problems are described in more detail below.

1. Government Ownership of Rental Housing. In 1987, 65% of all rental units or 24% of the total housing stock was government-owned. Rents paid by tenants, when collected, often met only one tenth of the estimated market value for the unit and did not even cover the cost of collection, much less maintenance and service costs. Many of the poor lived rent free.

Recognizing that government-owned rental properties posed a significant drain on government resources, the GOA introduced a law in 1981 authorizing the sale to occupants of units built before Independence and then amended the law in 1986 to include all housing owned by the state. Continued divestiture of government-owned rental stock remains a complicated issue and is discussed further below.

2. Inadequate Production and Lack of Formal Private Sector Participation. There exists in Algeria demand for approximately 250,000 new and upgraded units a year. Overcrowding is a serious problem, particularly in urban areas, and production in 1988 was approximately 150,000 units below the estimated number required. With regard to the informal sector, the Ministry of Housing Urban Development and Construction (MATUC) estimates that there are 700-800,000 illegal units in Algeria today, with over 50% of those units in unplanned shanty towns.

The bulk of formal sector housing has been produced by the public sector. Government housing projects are typically built by public companies with private

enterprises sub-contracted for electrical, plumbing and finishing work. Before 1985, with MATUC investing heavily in high rise buildings, a few, large public construction company contractors monopolized the industry.

3. High Construction Costs and Rigid Norms and Standards. After Independence, the Ministry continued to apply very high zoning and building standards adopted from the French. Densities at apartment building sites, for example, average 30 to 35 units per hectare, as compared to an average 60 housing units in current Moroccan land development programs and 55 units per hectare in Tunisia. In addition to increasing initial and subsequent operation and maintenance costs, such densities result in unnecessary displacement of agricultural production in some areas.

Construction costs are extremely high in Algeria, more than twice as high as in neighboring countries*. There are several explanations for such elevated construction costs, the first being the type of materials used and the type of construction, both of which are to very high standards. The second reason is the lack of competition in Algeria. With public building projects monopolized by a handful of construction firms, there is no need to respond to market forces. The end result has been that below median income families are unable to afford even a minimum complete unit, given current construction norms, methods, and costs, even when financing is provided at low interest rates.

4. Public Finance Policies and Interest Rates. In the past much of the housing finance in the country has been a matter of simple transfers to state-owned real estate development and management companies at low interest rates for the development of public rental housing. Since private developers on any scale do not exist, construction financing has been provided primarily to public companies. Given its new autonomy, CNEP will take on greater responsibilities

*Cost per square meter, including land:

Tunisia \$200
Morocco \$200
Algeria \$500

in shelter finance and will need to develop a more sophisticated and market-oriented approach to lending in order to ensure its sustainability.

5. Price Controls. Price controls in the housing sector in Algeria have been widespread. They apply to land sold by government; to the financing terms granted to home purchasers; to rental rates charged tenants of government-owned units; and to the service charges for utilities. Rents paid by tenants of government-owned units are supposed to cover maintenance and service costs, but may not even reach that modest goal. For example, a 20 m² apartment downtown costs only AD**140 per month, or \$20, equivalent to the cost of a kilo of meat in Algeria today. These subsidies until recently were generalized and indiscriminate. The GOA is aware of the distortions and costs involved and has plans to make subsidies fully transparent and directed only to the truly needy. Phasing of reforms is required to gain political acceptance.
6. Municipal Monopoly of Land Transactions. Land transactions were the monopoly of central and local governments. Most land was sold to or expropriated by various levels of government and could only be purchased from them. Sales of land to final beneficiaries were only in the form of individual serviced plots, seldom to private developers for further subdivision, construction or sale. The price of land was regulated by the government.

C. Algerian Aspirations

The proposed Algerian reforms are in part inspired by the new Algerian Constitution of February, 1989 which recognized for the first time the right to private property. Agriculture, water, public works and housing, and exports are priority sectors in the 1989 Annual Plan adopted as law by the Algerian National Assembly in January, 1989. Key areas for private sector involvement are import substitution, housing construction and housing financing.

Discussions with the GOA clearly indicate that Algerian interests in medium term housing sector policy reforms include:

**Algerian Dinars

- facilitating the participation of private sector developers by allowing greater access to land and streamlining the construction permit process;
- increasing the return on government rental properties;
- conversion of government rental properties to ownership;
- placing all housing finance operations, public and private, under the banking system, subject to commercial terms;
- encouraging creation of shelter-related services, such as engineering companies, maintenance services, real estate firms, etc.;
- providing incentives for the formation of small and medium size building materials companies;
- improving the distribution system for building materials;
- reducing construction costs through alternative designs and building materials* in order to reach lower income groups; and
- realigning shelter prices and target subsidies to serve the poorest families.

D. Recent Algerian Housing and Financial Policy Reforms

Reflecting their seriousness of purpose to implement substantive changes, the Government of Algeria has developed over time a series of far-reaching policy reforms. While some economic adjustments were made in the 1982-1985 period, serious reform efforts began in 1986 as outlined below.

1. Financial Policies

a. 1986-1988

From mid-1986, there was a shift in philosophy amongst policy makers which has evolved into a major economic structural adjustment program. The program

*NOTE: Existing building codes are more than adequate for seismic conditions. Training is needed in the design of seismic resistant structures which comply with existing regulations and take affordability considerations into account, for example, using light frame construction. A.I.D.'s Office of Disaster Assistance is a potential source of such TA. See Annex E, Section B.4 on Building and Seismic Codes for a more complete discussion of this issue.

emphasizes establishment of an economic, financial and institutional framework designed to improve efficiency, restore economic growth, and address Algeria's serious unemployment problem. Objectives are to create market signals, autonomy for public enterprises, enhance the role of the private sector, establish a sound financial system, and adopt sound, growth-inducing macroeconomic policies. Concrete actions taken by the GOA between 1986-1988 included privatizing state farms, granting autonomy to public enterprises and banks, adjusting the exchange rate (30% devaluation between 1986-1988) and increasing price flexibility. In the shelter sector, laws were passed in 1986 for divestiture of Government owned housing and to provide the private sector with more leeway for developing projects.

b. 1988-1989

The pace of adjustment has accelerated following the riots of October, 1988.

- i. Monetary Policies. The monetary reforms already adopted or in the process of being adopted by the GOA are widespread. The interest rate structure has been made more flexible and rediscount rates and interest rate ceilings have been raised. In June, 1989, the Central Bank increased its rediscount rate from 5% to 7% and the permissible interest rate ceiling was raised from 12% to 14%. Rates on all time deposits can now be freely set within a 5-14% range. From now on, interest rates set by both the Central Bank as well as commercial banks and CNEP, can be set by the banks themselves, based on a margin over their average cost of funds. This revised interest rate structure is expected to yield positive rates in real terms. The Government would like this to occur within a three-year period. An interbank money market was authorized by law on May 6, 1989, providing a mechanism to establish interest rates by supply and demand, rather than by administrative decree.
- ii. Fiscal Policies. The exchange rate now fluctuates against a basket of currencies and the Government intends to eliminate the differential between the official and parallel

rates in the next three years. Net Treasury lending to public enterprises has been declining. Further Government reductions are expected to decrease public financing for public entities from 5.8% of GDP to 3.0% during 1989. In addition, the National Credit Plan stipulates there will be no future Treasury financing for new investments by public enterprises and places a ceiling on new financing for on-going projects.

These cuts in expenditures will be coupled with measures to ensure that low income groups are protected during this economic adjustment period. In this vein, the Government is attempting to quantify the existing level of all consumer subsidies. More importantly, the Government is initiating policy and procedural reforms which will target subsidies more precisely to those truly in need.

iii. Financial Reforms. The Banking Law of 1988 assigns responsibility to the Central Bank for regulating the banking sector. This has effectively established, for the first time, the independence of the Central Bank from the Treasury. Also in 1988, the exclusive right of banks to specialize in specific sectors was abolished, opening the door to competition between banks for clients. The already adopted public enterprise reform law grants autonomy to all banks, meaning banks will now fully assume the commercial risk on their loans; losses will no longer be absorbed by the Government; banks may now refuse to finance Government-sponsored projects, even if Treasury resources are available; banks are fully accountable for their own profits and losses; and they are free to set their own interest rates, within the ceiling periodically adjusted by the Central Bank. One hundred and seventy-five public enterprises, including CNEP, have already been granted autonomy. The GOA goal is to grant autonomy to another 300 public enterprises.

iv. Private Sector Reforms. The new Algerian Constitution, passed in February, 1989, recognized for the first time the right to private property. Changes adopted in the financial sector to encourage private sector growth are widespread.

Restrictions on the size of allowable private investment were eliminated. Discrimination in lending rates between the public and private sector were abolished, and taxes on developed property were reduced to encourage private housing construction. Finally, the Private Enterprise Act of 1988 allows private companies to sell their products on the open market, free of price controls.

Credit allocations to the private sector have also been liberalized. Foreign exchange for the private sector, rather than being rationed by the Treasury, is now managed by the Chamber of Commerce. In 1988, the Government instituted a special program, also administered by the Chamber of Commerce, to encourage private sector production of construction materials. Public sector companies cannot participate in the program. Private sector set-asides for 1989 include:

- AD 1 billion to finance 200 private sector brick factories.
- AD 1.8 billion for private sector firms to import construction material production equipment.
- AD 4 billion in foreign currency to import raw materials for private sector construction material producers.

v. Public Sector Reforms. Consistent with the Government's stated objective to target government subsidies and limit Government outlays in the housing sector, the following public sector policy reforms have already been adopted:

- (a) The GOA has enacted a divestiture program for rental units. The Government has already sold over 200,000 units, most of them since 1986. The terms of these sales are very favorable to buyers* and as a result, government-owned stock has decreased from 24% of the total housing stock in 1987 (census data) to 13% in 1988 (MATUC estimate). The GOA has sold off 59% of its stock in two years.

*1% mortgage over 40 years

(b) The GOA has begun to change the price structure for shelter and to limit subsidies to low income families. In 1989, the following measures were passed:

- Only low income families (income below AD 3000) would be eligible for rent subsidies.
- An overall ceiling for rent subsidies of AD 280.
- Increased square meter cost for sale of government-constructed units to reflect construction costs in the year the unit was built.

(c) The GOA is moving the public sector to operate on market principles to reduce unnecessary budgetary support by requiring sales prices for government constructed low income housing to include administration, land, contracting and design costs.

These costs will no longer be paid out of the GOA treasury. In addition, public companies who build low cost housing are now autonomous and are expected to be self-supporting. Like any other developer, they now must acquire land at market prices from municipalities and private land owners.

2. Reforms in the Housing Finance System

The GOA has focused on the issue of positive interest rates in the context of the larger negotiations with the IBRD and the IMF. Reducing inflation is the first priority of the economic restructuring which is now underway. The government has also made a commitment to the IMF and the IBRD to achieve positive rates by 1994. The GOA raised interest rate ceilings in May 1989 to permit net positive interest rates and the GOA expects that most public and private institutions will increase their interest rates to ensure a positive rate of return on capital in the near future.

The housing sector, for the time being, has been exempted from some of the economic reforms which have been initiated. Algerian decision-makers are concerned about the potential for social disruption which could be

prompted by an abrupt change in government policy without an immediate and visible increase in the supply of housing.

CNEP has been a well managed and successful institution. Its key strategy is to use contract savings as a way to mobilize massive amounts of resources for investment, a practice which is used effectively in industrialized countries such as West Germany (See Annex G). The net result of this approach in Algeria is that CNEP has operated at a profit for the last three years and savings have risen by 25% and 22% over two years.

Current GOA overall housing policies are designed to move towards market interest rates and transparency of subsidies while maintaining a social net through more sharply targeted subsidies to those most in need.

III. PROGRAM DESCRIPTION

A. Program Goal and Purpose

The Program goal is to increase the overall provision of shelter, particularly for low income families. The purpose of this program is to increase the production of shelter, particularly for low income families, by supporting policy changes which encourage private sector participation and rationalize the role of government authorities.

B. Program Description

This Program is designed to provide \$200,000, from PRE/H and ANE in equal parts, in technical assistance and \$10 million in Housing Guaranty funds to assist the GOA to accelerate adoption of policy reforms which will lay the foundation for the creation of a market-driven shelter sector. The GOA is contributing another \$200,000 for technical assistance.

1. Core Policy Agenda

Given the level of resources available, the Program must focus on a selected number of policy initiatives. The core policy agenda has been defined as follows:

- Organization of a free urban land and housing market.
- Acceleration of private sector participation in the shelter sector.

- Improving affordability of shelter.
- Limiting the government's role and the level of subsidy in the housing sector.
- Moving toward sustainable housing finance.

Specific benchmarks for each of these policy initiative are provided in Section 3 below.

This Program will allow A.I.D. to gain deeper insight into the capabilities of the sector's institutions, a more thorough understanding of the impediments (regulatory, financial, and managerial) which must be removed to ensure adequate functioning of the shelter sector and a deeper understanding of the Algerian decision making process. It will help incorporate Algerian fully into the on-going dialogue with other countries in the region and with the U.S. The program is expected to help demonstrate that revised policies can create an environment conducive to private sector production of shelter, especially for low income families, and to improve the access and contribution of families to solving their shelter problems.

2. Technical Assistance and Training Budget

a. Budget

The A.I.D. Technical Assistance/Training Budget to support this sectoral program is limited and has been carefully targeted to assure that resources are available to address critical issues at key points in the process. Total funds available from A.I.D., split equally between RHUDO and ANE, amount to \$200,000 (\$100,000 per year). The GOA has also committed \$200,000 (\$100,000 per year) in equivalent local currency to finance technical assistance and training.

In addition to A.I.D. grant resources to finance technical assistance, which will be administered by RHUDO, RHUDO will continue to finance Algerian participation in regional activities. Algerians are already participating in an on-going RHUDO/UNCHS/IBRD (EDI) Maghreb training program and Algerians have attended recent RHUDO sponsored regional conferences. Exposure of Algerians to the experiences, practices and policies of other countries in the region is felt to be particularly important at this time.

Another potential source of training funds is the USIS International Visitors Program. In addition to the studies and seminars mentioned above, discussions have been initiated with USIS to identify FY 90 and FY 91 International Visitor Program funds which could be targetted for this program. Both individual study tours and inclusion of HG program counterparts in regional USIS programs will be explored. Participants targetted for USIS study tours/regional programs include architects, engineers, private developers and urban planners. Although the USIS planning cycle for allocation of FY 90 resources has passed, USIS indicated its willingness to request a supplemental budgetary allowance from Washington to specifically support this program in FY 90. For FY 91, RHUDO will coordinate with USIS to ensure that this program will be incorporated into USIS regular budgetary planning cycle.

b. Detailed Use of Technical Assistance and Training

The proposed technical assistance and training program (Annex F) reflects areas where RHUDO has identified needs and where the Ministry of Housing and CNEP have agreed assistance is warranted.

In the process of developing the Project Paper it became clear that the Algerians were well advanced in some areas, such as norms and standards, including seismic resistant construction techniques. In these cases the original TA input was modified to focus more upon the dissemination of information rather than development of new technologies.

In other areas, the Algerians need a more reliable data base upon which to base their policy decisions to ensure that, for example, subsidies are appropriately targeted. Such is the intent of the proposed household and revenue survey.

The technical assistance and training program will include the following types of assistance:

- Outside consultants. (U.S. and other regional French speaking experts.)
- In-country training seminars, for dissemination of information and exchange of

ideas. The in-country training seminars will most probably be developed by outside consultants who will work with Centre National d'Animation des Entreprises et de Traitement des Informations du Secteur de la Construction (CNAT). The intent is that once the content of the seminars is developed, presented, and tested with the help of outside consultants, that CNAT will continue the program without additional A.I.D. assistance.

- Regional exchanges/seminars will be an important means of reinforcing A.I.D.-initiated policy dialogue.
- U.S. training, as feasible. (This type of assistance will be limited by the French language barrier.)
- USIS International Visitors Program. (Preliminary contact has already been made with USIS/Algiers.)

Target groups for technical assistance and training modalities:

- U.S. and other foreign experts will be used to provide technical assistance to CNEP in further developing their interest rate and financial strategies, to MATUC and CNEP to conduct reliable household income and expense surveys, and to MATUC to analyze the unsold GOA inventory and to develop a disposition plan. The target group for outside technical assistance includes both technicians and key decision-makers, principally in MATUC and CNEP.

The studies to be contracted are designed not only to develop the technical capacity of Algerian technicians to conduct future similar studies, but more importantly, to be used as the basis for making key policy reforms, such as more carefully targeting subsidies, limiting government intervention in the housing sector, and developing a private housing market.

- In-country training will be provided to public and private developers, architects, and engineers to improve site designs, to

introduce lower cost construction technologies, and to disseminate alternative construction technologies for earthquake-prone zones already developed by the Algerians.

- Regional exchanges/seminars will be targeted to top and mid-level private and public sector managers who can benefit from exposure to selected sister institutions, e.g., from Morocco, Jordan, and Tunisia.
- U.S. training, when appropriate, will be targeted to top level decision-makers.
- USIS study tours will be targeted to key private sector developers, architects, and engineers.

A more detailed analysis of training and technical assistance needs which have been identified and an illustrative budget are contained in Annex F.

3. Expected Program Outputs and Measurable Benchmarks

Expected Program outputs include development of free land and housing markets, greater private sector participation in the production and financing of housing, a more rational role for the government in housing, and improved housing finance sustainability. As a result of technical inputs, the expected program outputs include reduced housing costs, subsidies targeted for low income families, divestiture of government owned stock and improved management of the Housing Savings Bank (CNEP) as well as the physical outputs from local currency lending under the Program.

Progress towards achieving these Program outputs will be measured over the two-year life of this Program according to the following benchmarks:

a. Policy Benchmarks

- i. Organization of a free urban land and housing market.
 - Submit to the National Popular Assembly legislation to facilitate land and real estate transactions for the private sector.
 - Complete an analysis of unsold government housing stock and prepare a disposition plan.
 - Set sales prices for new government units to reflect construction costs.

- ii. Acceleration of private sector participation in the shelter sector.
 - Create a consultative body of private sector representatives which will work with the GOA to remove impediments to private sector real estate development.
 - MATUC, in conjunction with the consultative body, will clarify and publicize the procedures for initiating private real estate development projects and obtaining authorizations and approvals.
- iii. Improving affordability of shelter.
 - Complete training on alternative site and unit designs to reduce costs of shelter for low income families.
 - Mortgages provided by CNEP to below-median income families should not fall below 30% of CNEP's total lending.
- iv. Limiting the government's role and the level of subsidy in the housing sector.
 - Establish targets for limiting the government allocation to parastatals for construction of public housing.
 - Establish targets for increasing rents on government-owned rental stock which will, over time, close the gap between public and private rental payments.
 - Complete a household budget and revenue survey to define the target population for subsidies.
- v. Moving toward sustainable housing finance.
 - Develop a long-term financial plan and an interest rate strategy for CNEP which will allow periodic adjustments in loan terms in order to maintain a return on capital which is equal to or greater than the rate of inflation.

b. Physical Production:

The local currency equivalent of \$10 million will be used to finance eligible mortgages, home improvement loans, and expenditures for basic urban services benefiting families with incomes below the median urban income.

CNEP loans to below median income families range from AD 100,000-200,000. Typically, therefore, low income beneficiaries either utilize their own or family savings to complete their unit. Assuming an average mortgage from CNEP of AD 150,000, an exchange rate of AD 7/\$1 and utilization of the full \$10 million in local currency by CNEP, would generate approximately 500 mortgages.

IV. EVALUATION AND MONITORING

A. Evaluation

Algeria has embarked on an ambitious policy reform program. Achieving a 180 degree shift in direction in the shelter sector will take years to accomplish, with any number of mid-course corrections. This first Program provides A.I.D. with opportunities to: (1) to advise key officials and to introduce the experiences of other countries; (2) to track progress and to establish achievable milestones in order to assess the potential for a future, closer collaboration; and (3) to gain a better understanding of the nuances of the Algerian shelter sector.

Currently approved A.I.D. involvement and this HG Program meet the general criteria for country eligibility as set forth in the "country eligibility checklist (Annex C).

Within the broad spectrum of reforms underway, the policy menu and benchmarks described above have been presented as the focus of A.I.D.'s efforts. Each of these core policy items and benchmarks has been discussed with and agreed to by GOA officials. Taken in their totality, the benchmarks form a Program Implementation Plan and Schedule, against which the efficacy of continued Housing Guaranty assistance will be evaluated. The Program will be evaluated within the first year after the GOA has borrowed HG resources.

The main evaluative objective will be to determine the progress made in the process of carrying out basic change in the shelter sector. At the point of evaluation, it is not expected that all actions required to carry out each item on

this policy menu will be accomplished; rather, what will be important is that in A.I.D.'s judgement the GOA has seriously considered the issues involved, and made decisions it believes to be in the nation's best interest, in order to improve the way the GOA conducts shelter sector business.

In addition to the defined benchmarks, GOA progress against its fully articulated sectoral aspirations would also be taken into consideration in deciding whether a critical mass of change had been achieved and in determining future A.I.D. involvement in the sector.

B. Monitoring

A.I.D. does not have a Mission in Algeria and assignment of A.I.D. staff is not being contemplated. When fully staffed, RHUDO/Tunis includes three direct hires and two professional contractors. Responsibilities for Algeria will be fixed in the RHUDO office and direct hire personnel will travel to Algiers on a quarterly basis to monitor the program, manage consultant teams, and to provide advice and assistance. (Algiers is only one hour by direct flight from Tunis.)

The Embassy will monitor progress on achieving benchmarks, keep A.I.D. informed of policy changes, provide substantive information (economic, political) and logistical support (scheduling meetings, reservations, transportation, workspace, etc.) for RHUDO staff and contractors. The Embassy has assigned an American FSO from the Economic Section to assist A.I.D. in implementing this project and was most helpful in the preparation of the PID and Project Paper.

In addition, the technical assistance budget includes \$35,000 earmarked for continued monitoring of project sub-components by consultants to ensure benchmarks will be met.

V. CONFORMITY WITH U.S. STRATEGIES AND OTHER DONOR PROGRAMS

A. Conformity with U.S. Strategy

U.S. policy guidance on assistance to Algeria established last year by the Administrator was to provide limited food and technical assistance in privatization, and to consider a modest Housing Guaranty (HG). The 416 Program would provide \$1.5-2 million worth of sorghum. The dinars from the sale of the sorghum would be used to construct a home for the elderly. A.I.D. has also offered a grant to finance privatization activities. In addition, A.I.D. provided \$1.5

million towards locust eradication in 1988. This HG Program would complete the strategy. This aid package was developed at the request of the Vice President and to provide encouragement to Algeria in its dramatic economic reforms and political reproachment with the United States.

In addition to these bilateral activities, A.I.D.'s Regional Housing and Urban Development Office has sponsored the participation of Algerians in several regional shelter/urban conferences in the last three years. These conferences provide in-depth exposure to current thinking on urbanization, housing finance, and related matters elsewhere in the region and the world, focusing on increased reliance on the private sector and market forces, decentralization, equity, and sustainability.

The U.S. Commodity Credit Corporation (CCC), the U.S. Export Import Bank, and to a lesser degree USDA have recently extended credits to Algeria. Since 1986, the U.S. Commodity Credit Corporation has offered government guaranteed credits totalling \$2,100 million. The credit offer for 1989 is \$760 million and \$800 million for 1990.

During the same period 1986-1989, the U.S. Export Import Bank offered credits and guarantees totalling \$905.4 million. As of the end of 1988, \$526.8 million had been drawn down. A grant of \$3.4 million has already been provided by the U.S. Feed Grains Council (USDA) to construct two model farms.

B. Activities of Other Donors

The World Bank is the principal multilateral lender in Algeria. In the water and sewer sector, it has lent the GOA approximately \$884 million during the period 1978 through 1989. Projected new projects under appraisal, in addition to water and sewer loans mentioned above, total \$568 million in 1989 alone.

These new World Bank loans include a \$300 million Economic Support Loan signed with the GOA in August, 1989. The first tranche, \$150 million, will be disbursed to the GOA in September, 1989, on the basis of the progress the GOA has already made in restructuring the financial sector. Like the HG program, subsequent tranches of this loan are contingent upon progress made in achieving defined benchmarks.

Related to the housing and urban sectors, the World Bank's loans, designed to increase the supply and improve the

distribution of water services to families, will facilitate the development of private production of housing. In addition, according to Bank sources, a construction materials program is now under consideration, with the initial focus on construction materials production and distribution. This program will greatly expand the availability and private sector access to construction materials. The World Bank is also contemplating a municipal development project which will address management and infrastructure bottlenecks at the local level.

The GOA signed a standby agreement with the IMF in May, 1989, which will provide the GOA with about SDR 471 million. This agreement promotes the GOA's policy of moving rapidly toward positive interest rates while endorsing the GOA's intention to retain preferential interest and rediscount rates for housing and agriculture over the short term (the next three years) given the political sensitivities of those sectors.

Smaller multilateral creditors and donors have also become much more active in the last two years. In 1988, the International Fund for Agricultural Development (IFAD) established a \$15 million rural development project; the African Development Bank is considering a \$40 million loan to support the private sector; and the UNFFPA will fund a \$7.5 million population project.

VI. FINANCIAL AND IMPLEMENTATION PLAN

- A. Borrower and Cash Flow. Upon ratification of the Housing Program Agreement, which will include the benchmarks outlined above and the provisions and covenants called for in paragraphs 3 and 4 of the PID approval cable (Annex 4), the GOA will be authorized to borrow HG resources from a US private investor. CNEP will be the borrower of record. The GOA will guarantee repayment of the loan to A.I.D. and will cover the foreign exchange risk. The dollars received from the U.S. private investor will be deposited into the account of the Central Bank of Algeria.
- B. Eligible Expenditures. The GOA shall present local currency expenditures equivalent to HG dollar disbursements. The following expenditures will be eligible for this program:
1. Mortgages or home improvement loans
 2. Expenditures for extension of urban services
 3. Expenditures for rehabilitation of earthquake damaged homes
 4. Other shelter related programs

All loans and services detailed above must be affordable to below median income families or to communities where the majority of residents earn below the median income, as defined in the Project Paper (Section VII.3.b) and updated as deemed appropriate by A.I.D. and the GOA.

Expenditures are considered eligible if they are made for the purposes listed above and encumbered after the authorization date of the Project Paper. The equivalent amount of \$10 million in local currency will be fixed on the basis of the dollar/dinar exchange rate on the date a HG disbursement is made.

- C. GOA Contributions. In addition to the \$200,000 GOA contribution to the technical assistance component of this program, the GOA plans to establish a local currency fund to finance activities in support of shelter sector institutions. While not a requirement of this loan, such a fund is a beneficial additive to the sector and this program.

This local currency fund will be used at the discretion of the GOA to finance the following illustrative types of activities:

1. equipment for shelter institutions to improve their output and efficiency
2. services required to assist shelter sector institutions to adopt and implement policy reforms
3. investments in production or rehabilitation of shelter

The fund will be managed by CNEP for the benefit of shelter sector institutions.

VII. SUMMARY OF PROGRAM ANALYSES

A. Implementing Agencies and Institutional Analysis

Given that this is a program, not a project loan, there are potentially many institutions involved in adopting the envisioned policy reforms. The Ministry of Housing, however, clearly is the lead agency in the policy process and CNEP is the chief player in housing finance.

1. Ministry of Housing, Urban Development and Construction (MATUC).

The Ministry of Housing is responsible for defining housing needs, developing policies to address those needs, allocating resources, and managing implementation of housing programs.

In addition to developing policies and allocating resources, the Ministry of Housing also plays a direct role in the development and approval of housing and urban upgrading projects. For example, in conjunction with the municipalities, the Ministry of Housing clears all housing projects in excess of 400 units and directly approves all building permits for housing projects exceeding 800 units.

In the area of urban upgrading, the Ministry of Housing develops, in conjunction with the municipalities, urban upgrading projects.

The Ministry of Housing supervises the overall utilization of land in Algeria. This responsibility is exercised through the development of national and regional land use plans, which began in 1987. In this capacity, the Ministry of Housing supervises the National Land Planning Agency (ANAT), which is responsible for ensuring that regional and national land use plans are complied with.

2. Private Sector

In 1987, there were 8,512 companies engaged in construction contracting or subcontracting, of which 7,464 were private, mainly sub-contractors. Despite the high number of private companies, they account for only 15% of the total number of employees in the sector, with the remaining 85% employed by the few large public contractors who dominate the industry. Prior to 1985, the government had a quasi-monopoly on housing construction, a situation which contributed to high costs and diminished quality of work. Currently, private contractors may either contract with the public sector, with private individuals, and since 1986 with private developers. When working for a public agency, a private contractor must have large capital reserves or lines-of-credit because of the need to deposit a 5% guarantee with a bank and to stockpile sufficient construction materials needed to start the job, while receiving only a 5-15% start up payment. Completion of the building may take years, due to lack of construction materials or delays in utility hook-ups. Private contractors are forced to buy materials on the black market at inflated prices in order to meet contractual deadlines, but final payments may only be received years after construction has commenced.

When working for private individuals, contractors may also be required to furnish a completion guarantee, but the advance payment is 25% or more, with payments due as work progresses. Furthermore, the owner himself may take the responsibility of acquiring and stockpiling materials, whose availability affects public and private contractors equally and causes delays in approvals.

In 1988, the GOA launched a new program to stimulate private investment in new construction materials industries. The package of incentives include access to land, tax credits, and most importantly, access to foreign currency for importing new equipment. In addition, a new joint venture law is currently being discussed and some form of law authorizing foreign private investment is expected this year.

All companies engaged in construction, whether public or private, are subject to a tax of 2% on their gross revenue which goes to support the training programs, data gathering and information services provided to the industry by the Centre National d'Animation des Entreprises et de Traitement des Informations du Secteur de la Construction (CNAT). The programs of CNAT are extensive and are available to all contractors. Diploma courses have been offered for construction managers, tradesmen and professionals entering the field. In the past 10 years more than 6,000 diplomas have been granted and there are currently 3,000 individuals enrolled in CNAT diploma courses. Four areas of specialization are offered: technical, maintenance, managerial, and marketing. CNAT also offers special seminars on selected topics.

In addition to its training function, CNAT serves as a central source for data on the construction industry, collecting information on construction costs, on volume of work in progress, and on availability of labor and materials from 12 sub-centers located in the offices of major contractors and 30 individual statisticians collecting data and feeding it into its central Algiers office, where it is compiled and published quarterly. CNAT has three regional offices, Algiers, Oran and Constantine, in addition to an office in each of the 48 provinces.

3. Caisse National d'Epargne et de Prevoyance

CNEP was established in 1964 as a savings institution and has been active in housing finance since 1971. It

has a good record of attracting savings, both in relation to annual growth and in sheer volume. CNEP began opening branch banks in 1980. By 1988, there were 130 branch banks and 2,655 savings windows in post offices. In 1988, CNEP had 2,104 employees.

CNEP's long term resources (savings deposits) cost 5%. CNEP currently lends these resources for 15 to 25 years to individual savers and non-savers. Between 1986-1988, CNEP's lending to savers (at a 6% rate prior to 5/89 and 6.5% after 5/89), increased by 89%, while loans to non-savers at 9% increased by 174% during the same time period. For a borrower to qualify for the more favorable "saver's" rate, he must have a savings account for at least 2 years and have earned a minimum of AD500 on this account. In such a case, he is entitled to the favorable interest rates and for a loan of up to approximately twenty times the amount of interest earned over the life of the loan.

Thus, all of CNEP's lending provides a positive return (6.5% lending rate versus 5% cost), and the bulk of CNEP's portfolio is now shifting toward net positive interest rates when compared with the current inflation rate of 8.5%.

Overall, CNEP's accounts present a good record of growth and profitability from 1986-1988. Savings balances grew 24% in 1987 and 22% in 1988. Operating profits represented respectively .7%, .6% and .5% of total assets in each of the years 1986-1988. Thus, CNEP is highly liquid with investment assets of AD 50 billion, representing 85% of savings balances of AD 59 billion as of 12/31/88.

Reflecting the Government's objective to target affordable mortgages to low income families, CNEP has opted to maintain interest rates at 6.5% and 9% in the short term, until the full effect of other macroeconomic, financial, land and housing policy reforms are felt in the market place.

Technical assistance will examine the long-term financial strategy of CNEP and how the shelter sector should be reshaped in the context of the overall reform of Algeria's financial markets now underway. The use of variable rates has already been broached with the GOA, but it is much too early in the reform process to know when such a system would be feasible.

B. Economic Analysis

1. Economic Overview

Algeria, like most oil-exporting countries (hydrocarbon exports represent 97% of export earnings), has suffered a harsh reversal of its fortunes since world oil prices began to decline in 1986 accompanied by the devaluation of the U.S. dollar.

The Government of Algeria undertook severe economic austerity measures including slashing imports by 10% in 1986 and an additional 23% in 1987, and sharply reduced or eliminated public investments. As a result, Algeria's GDP was only 0.6% in 1986, 0.8% in 1987 and zero percent in 1988.

In addition to the erosion of people's standard of living due to the economic crunch, Algeria's socialistic development policies and strategies have resulted in shortages and bottlenecks. Although per capita GNP has almost doubled since independence (\$1,200 in 1962 to \$2,150 in 1988), supply of goods and infrastructure lag far behind demand. Shortages of basic consumer goods, rising unemployment, and overcrowding in urban areas have seriously eroded Algerian's standard of living.

Rapid political reform since late 1988 has permitted a much increased pace of economic reform. Algeria moved to liberalize non-hydrocarbon sectors such as agriculture, manufacturing, and construction. Large state-owned farms were broken up and distributed to farmers in late 1987. Reform of state enterprises is evolving more slowly. About half of the 350 state enterprises are now "autonomous." (Autonomy means the managers will be held accountable for the profitability of their operations.) The GOA is gradually lifting restrictions on the private sector and removing its monopoly on foreign trade and domestic distribution of essential goods. However, non-hydrocarbon sectors will require years before they can become internationally competitive. In the meantime, the crucial ingredients of Algeria's economic health remain firm energy prices and the ability to attract continued external finance.

2. Exchange Rates

Since late 1986, the authorities have adopted an active exchange rate policy, involving a smooth depreciation of the dinar against a basket of currencies. The real

effective depreciation in foreign currency terms was calculated at over 31 percent between December 1986 and December 1988. The discount on the Algerian dinar in the parallel exchange market, which has been in existence for several years, grew in 1988, with the parallel exchange rate at year-end reportedly at about 20 percent of the official exchange rate, compared with about 30 percent a year earlier. In late 1988, official allocations of foreign exchange for personal travel were temporarily suspended, thus adding to the demand for foreign exchange on the parallel market, and contributing to a widening of the difference between the two exchange rates.

The Algerians plan to continue during 1989 the active exchange rate policy that they have pursued in the past two years. For the medium term, they intend to eliminate the margin between the official and parallel rates within three years. Thus, continued exchange rate flexibility will also be required over the medium term.

Until recently, imports were subject to detailed administrative control through the planning and import licensing systems. Effective this year, the new system of foreign exchange budgets will give enterprises greater freedom in meeting their import needs.

Under the new system, three categories of importers have access to official foreign exchange: (1) public enterprises, which may import goods and services required for their production process; (2) public trade bureaus, which have the exclusive right to import for resale to the public; and (3) the National Chamber of Commerce, which issues import authorizations to the private sector.

3. Interest rates

A key element of the government's monetary policy for 1989 is a higher and more flexible interest rate structure. The Central Bank rediscount rate is being raised by 2 percentage points, to 7 percent, while the permissible ranges for most interest rates have been widened, and the interest rates on medium- and long-term credits are to be based on a margin over the average cost of funds. As a result, for the first time, lending rates are expected to turn positive in real terms. Bank credit to the private sector will henceforth be extended at the same interest rate as to the public sector. For the near term, preferential rates are being maintained

for loans to sectors regarded as priority, including agriculture, nonhydrocarbon exports, and housing, although upward adjustments are planned.

4. Financial markets

The government also plans to implement an expanded money market, to which insurance companies and other major institutions will also have access. As in the past, operations will be conducted through the Central Bank. The government has specified rediscount ceilings which include both ordinary rediscounts at the Central Bank and borrowings from the money market. Thus, the limits on Central Bank intervention in the money market are expected to serve as a rationing mechanism for the availability of funds to commercial banks. In a second phase, to be implemented in 1990, the interest rate in the money market is expected to be set mainly by supply and demand and will become a reference rate for the setting of other deposit and lending interest rates.

5. Country Risk Analysis

Despite sharply reduced export earnings since 1986, Algeria retains its reputation as one of the better middle income debtor countries. Characteristically, the GOA's reaction to reduced export earnings has been to compress imports rather than miss payments to foreign creditors, despite the concomitant domestic austerity which contributed considerably to tensions leading to the October 1988 riots.

The period 1987-1991 corresponds to Algeria's debt repayment "hump." Algeria's mid and long-term disbursed external debt totaled about \$22 billion by mid-1989. Debt repayment (principal plus interest) this year will total \$6.1 billion, a debt/service ratio of about 60 percent. Foreign exchange reserves were expected to rise to \$974 million by the end of 1989, equal to two months' imports.

To meet this heavy burden without rescheduling, the GOA has drastically reduced overseas construction contracts, allotments for tourism. Instead of paying by local currency, state enterprises now have to provide hard currency to finance imports, typically through bilateral lines of credit. These lines have increased dramatically, largely at the urging of the GOA.

In early 1989, France, Italy and Spain offered concessional credits totalling about two billion dollars. Japan provided large credits in 1988 and is expected to continue to be one of Algeria's most important sources of finance in the medium term. Further, the USG has rapidly expanded its commodity credits for purchase of U.S. agricultural products, reaching \$800 million for FY 1990. Bilateral concessional finance has permitted the GOA to reprofile its debt into longer maturities. Short term credit, which grew explosively in 1987-early 1988, has been contained.

The GOA has used countertrade, purchasing two Boeing 767's in 1988 with part-payment in natural gas and, in late 1987, repaying about \$200 million of military debt owed to the USSR with non-hydrocarbon exports to reduce its hard currency debt.

The GOA has also tapped multilateral financial institutions to soften hard currency borrowing. Lending by these institutions has greatly increased since 1986, with the World Bank taking the lead. A milestone was passed in 1989, when the GOA signed a Standby Agreement with the IMF, marking the first GOA approach to the IMF. In its presentation to the IMF, the GOA promised a sharp reduction of the budget deficit in 1989, sharp devaluation of the dinar, and market-oriented reforms.

Energy prices remain, however, the most important determinant of Algeria's foreign exchange earnings and thus its ability to repay. Hydrocarbons make up 97 percent of exports, of which crude oil exports are about 20 percent, the rest diversified into natural gas, LNH, condensates, LPG, and refined products. Firm oil prices since February, 1989, as well as the strengthened dollar, mean that Algeria will have no problem meeting debt repayment obligations in 1989. Moreover, since 1987, natural gas agreements with major partners -- U.S., Italy, Spain, France, and Belgium -- have re-established Algeria's presence in traditional gas markets and should help enhance export earnings.

In summary, despite the GOA's high debt service to export ratio and its reliance on hydrocarbon exports for hard currency, the GOA is taking measures to insure sufficient hard currency to repay its international debt. This \$10 million program is miniscule by Algerian debt standards and has no effect on the overall picture. The GOA retains a strong reputation for prompt

repayment. The U.S. Embassy/Algiers has stated that it is convinced that Algeria will not reschedule its foreign debt in the foreseeable future.

C. Technical Analysis

1. Construction Materials. The Ministry of Housing has historically controlled the price, production and distribution of construction materials. Materials continue to be rationed and are in very short supply through legal channels. Chronic shortages (20% overall), distribution problems and storage waste (e.g., cement can only be stocked for one month) increase the real cost of housing production and put a premium price on construction materials in the black market. Misunderstanding of construction codes and limited alternative materials also lead to waste. Due to the lack of wood, steel, glass, bricks, etc., Algerian housing has a high import component (30%). All wood is imported, 25% of cement, and 100% of asphalt. Cement production capacity exists, but plants operate below capacity due to lack of maintenance and poor management. Private enterprises are already being solicited by the GOA to invest in the production of bricks and other scarce construction materials.

The World Bank has identified construction material production as one of its program priorities and is presently developing a program to improve production and management of construction materials. The program will address price, distribution and control issues and is aimed at management by the private sector on a profit making basis.

2. Water and Wastewater Water is a serious constraint to development in Algeria. As exploitation of surface water resources is generally difficult, most of the urban areas are presently supplied with groundwater, which is also the main source of water for irrigation. Domestic and industrial uses account for about 25% of total water consumption. The need of water for these uses is expected to expand very rapidly, as population grows and consumption, currently below desired standards in many areas, increases. Overall demand is expected to rise from the current level of 3.38 billion m³/year to 8.64 billion m³/year in the year 2020. The share of drinking water should increase from 21% to 37% of the total, equal to 150-200 lcd., but plans are underway to meet this level of demand.

A reorganization of the sector was undertaken in the late 1970's, when responsibility for the management of water supply and sewerage systems was delegated to 13 regional public utilities companies. To coordinate the operation of the regional authorities, a new agency for water was established in 1985 within the Ministry of Hydraulics. This agency's role is to assist the Ministry in planning and implementing water supply and sewerage investment programs.

Government investment policies over the last decade have greatly improved access to water. It is estimated that the urban population directly connected to water service lines increased from 60% in 1976 to over 80% in 1985. In spite of this, the service level is still poor in some cities where supply is insufficient. In these cases, service is limited to no more than 12 hours a day.

About 80% of the urban population is connected to public sewer networks, which in most cases are combined sewerage-drainage systems. Only a few treatment facilities exist. The one under construction in Algiers became operational in 1988, while those in Oran and Constantine are expected to be operational in 1989. In all other urban areas, 70% of the houses are provided with public water supply systems, and 60% with sewer systems. Only 40% of the rural population has direct access to public water supply networks, and only 25% to sewerage.

D. Social Analysis

1. Median Income: The 1989 median urban income is estimated by A.I.D. to be 3,700 dinars per month per household. This figure corresponds to other estimates which have been made by the World Bank and by Ministry of Housing for establishing criterion for public social housing eligibility. In a 1987 report, the World Bank used 3,000 dinars per month as representative of an unskilled worker's income; the Ministry of Housing currently uses incomes ranging from 2,500-3,500 dinars per month to set high priority eligibility for public social housing; but this is a national rather than an urban norm. (See Annex E.7 for the derivation of the median urban household income).
2. Affordability. The previous sections of this report have demonstrated that there is still a large gap between the amount of monthly income dedicated to public

social housing rents (calculated on the basis of 15% of household income), and that which can be mobilized to pay for other types of housing. This section shall examine in more detail what a below median income household can afford to purchase under various interest rates and schemes.

- a. Purchase of public social housing units (post 1981)
The sales price of an average public housing unit is 100,000 dinars, the terms are 2% interest, with a loan repayment of 30 years. Average monthly payment is 300 dinars which represents 7.5% of the estimated median urban household income.

For a unit of 70m² the cost would be 245,000 dinars. At 2% interest, the monthly repayment would be AD 682, equal to 18% of median urban household income.

- b. Purchase of all other housing using CNEP financing.
CNEP financing is based on two different interest rates, 6.5% for savers and 9% for non-savers.* According to CNEP's loan eligibility criteria, repayments cannot exceed 30% of income.

CNEP provides mortgages to all income categories, but the statistics gathered for their first quarter of 1989 indicate that the largest block of mortgages are being made to below median income families.

* In June 1989 the interest rate rose from 6.0 to 6.5%

DISTRIBUTION OF LOANS FIRST QUARTER 1989: CNEP

<u>Loan Amount</u>	<u>Average Income Beneficiary</u>	<u>- lending rate -</u>		<u>Total %</u>
		<u>% at 6%</u>	<u>% at 9%</u>	
0-100,000	2625	45%	47%	46%
100,000-200,000	5200	31	29	30
200,000-300,000	9000	21	19	20
300,000-500,000	25000	3	5	4
500,000 +	25000 +	-	-	-

As a general estimation of borrowing capacity, CNEP calculates a monthly income of 3,000 dinars can support a loan of up to 100,000; 4,000 dinars to support a loan up to 150,000 dinars; and 5,000 dinars for a loan totalling 200,000 dinars. The table above indicates that the most common loan is less than 100,000 dinars, which corresponds to a unit of approximately 25 m² at current market prices.

In order to calculate the affordability of housing to below median income households, assumptions must be made regarding payment efforts. As this information is not yet known, three different efforts have been calculated.

AFFORDABILITY FOR BELOW MEDIAN INCOME HOUSEHOLDS*

<u>Average Monthly Income</u>	<u>Effort</u>	<u>Payment</u>	<u>Cost Per Unit</u>	
			<u>6%</u>	<u>9%</u>
3,000	10%	300	46,562	35,748
	20%	600	93,124	71,496
	30%	900	139,686	107,245
3,700	10%	370	57,426	44,089
	20%	740	114,853	88,179
	30%	1110	172,279	132,279

The maximum size unit affordable by the two income categories above, at two different interest rates, is the following, based on a square meter cost of 4,000 dinars.

*/ Based on pre June 1989 interest rates

<u>Income</u>	<u>6% Interest</u>	<u>9% Interest</u>
3,000 at 30% effort	34 sq.m.	26 sq.m.
3,700 at 30% effort	43 sq.m.	32 sq.m.

Given that the loans for these income groups will be between 100,000 and 150,000 dinars, the units which will be affordable will range from 25-37 square meters, assuming no financing is provided by family and friends outside of the banking system. This is a very small house, given the average national household size of 6.77 persons.

There are several explanations for such elevated construction costs, the first being the type of materials used and the type of construction, both of which are to very high standards, not currently in use in the US. In Washington, buildings using the same types of basic structures and finishing materials as in Algeria would cost \$80 per square foot. The second reason is the lack of competition in Algeria, with public building projects monopolized by a handful of construction firms who are not necessarily concerned about controlling costs.

Nonetheless, the end result has been that housing is so expensive that below median income families can afford to purchase only a minimum unit, under current construction norms, methods and costs, even with the existing interest rate structure.

E. Environmental Analysis

Section 2 of ANNEX E describes the institutional responsibilities for environmental management and protection and the key environmental issues being addressed by the GOA. Seismic issues are discussed in ANNEX E, Section 4, Building and Seismic codes. Because this is a sector loan, pursuant to CFR 216, the program is categorically excluded and a waiver was signed in AID/W.

LOGICAL FRAMEWORK

<u>Narrative</u>	<u>Objectively Verifiable Indicators</u>	<u>Means of Verification</u>	<u>Assumptions</u>
<u>Goal:</u> To increase provision of shelter, particularly for low income families	<ol style="list-style-type: none"> 1. Reduced overcrowding 2. Increased production of housing 	<ol style="list-style-type: none"> 1. Statistics and reports from MATUC 2. Chamber of Commerce Quarterly Reports 	<ol style="list-style-type: none"> 1. Economic reforms take hold, inflation drops, incomes remain stable or increase 2. GOA remains committed to private sector provision of housing 3. GOA remains committed to providing housing to low income families 4. Macroeconomic credit limits do not unduly affect the housing sector 5. Foreign exchange from export earnings are sufficient to import needed housing production raw materials. 6. No natural or political disasters

LOGICAL FRAMEWORK

<u>Narrative</u>	<u>End of Project Status</u>	<u>Means of Verification</u>	<u>Assumptions</u>
<p><u>Purpose:</u></p> <p>Increase the production of shelter, particularly for low income families, by supporting policy changes which encourage private sector participation and rationalize the role of government</p>	<ol style="list-style-type: none"> 1. Increased production and ownership of shelter by the private sector 2. Increased production of low cost shelter 3. Increased financing available to the private sector 4. Increased contribution by private individuals to their shelter solutions 5. Government targets subsidies to only low income families 		<ol style="list-style-type: none"> 1. GOA promotes and enforces new private sector laws 2. The public and private developers accept low cost designs and standards 3. Households can financially afford to devote 15-30% of their budget to housing expenses 4. The private sector developers/contractors possess the necessary managerial and technical skills or are willing to develop the skills to expand their participation in housing development 5. The private sector is interested in developing and constructing low cost housing and the removal of disincentives and creation of incentives is sufficient for them to assume market risks. 6. The price of construction materials remains stable or drops

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LOGICAL FRAMEWORK

<u>Narrative</u>	<u>Magnitude of Outputs</u>	<u>Means of Verification</u>	<u>Assumptions</u>
<u>Outputs:</u> 1. Creation of Free Land and Housing Markets	1.1 New land law presented to Assembly 1.2 New housing law presented to Assembly	1.1 Copies of laws	1.1 Majority of GOA Popular Assembly shares GOA commitment to increase the participation of the private sector in shelter provision
2. Reduce norms and standards/ Improve Affordability	2.1 Three seminars on low cost architectural designs held 2.2 Three seminars on alternative designs/seismic standards held 2.3 Two seminars on complying with building codes held	2.1 Project monitoring reports 2.2 Consultant reports	2.1 Results of seminars accepted by GOA and private developers
3. Accelerate resurgence of the private sector	3.1 Mechanism created for private sector to present recommendations to the GOA	3.1 Mechanism for improved communication between the public sector and private developers created	3.1 Private sector reacts favorably to new environment and increases its participation in shelter production 3.2 GOA legally recognizes private sector association

LOGICAL FRAMEWORK

<u>Narrative</u>	<u>Magnitude of Outputs</u>	<u>Means of Verification</u>	<u>Assumptions</u>
<u>Objective:</u>			
4. Limit and target subsidies by GOA	4.1 Government-owned units are provided only to low income families	4.1 MATUC statistics, random surveys	
	4.2 Rents on GOA-owned units increase by 15% in 1990	4.2 Project monitoring Reports	
	4.3 GOA increases price of GOA constructed units for sale	4.3 Consultant reports	
	4.4 GOA owned units do not exceed existing levels		
	4.5 GOA develops multi-year divestiture plan		
	4.6 Low interest rate loans provided only to below median income families		

LOGICAL FRAMEWORK

<u>Narrative</u>	<u>Magnitude of Outputs</u>	<u>Means of Verification</u>	<u>Assumptions</u>
<u>Objective:</u>			
5. Housing finance system becomes more market-oriented and continues to service below median income families	5.1 CNEP becomes autonomous agency 5.2 CNEP develops long term financial plan 5.3 CNEP develops interest rate strategy 5.4 CNEP continues to provide 30% of its individual loans to below median income families	5.1 CNEP Board of Directors minutes of meetings 5.1 GOA regulations 5.2 Consultant report 5.3 Changes in Banking regulations, consultant reports 5.4 CNEP Quarterly Reports 5.5 MATUC reports	5.1 GOA continues pursuit of liberalization of finance policies
<u>Inputs</u>	<u>Implementation Target</u>	<u>Means of Verification</u>	<u>Assumptions</u>
1. HG Loan	\$10 million	1. RHUDO Records	1. US investor interest exists
2. GOA funded TA	\$200,000	2. GOA Records	2. GOA borrows HG resources
3. AID funded TA	\$200,000	3. AID Records	3. GOA resources available
			4. AID resources available

THE HOUSING GUARANTY PROGRAM

STATUTORY CHECKLIST

NAME OF COUNTRY

PROJECT NO. 638-HG-001

ANSWER YES/NO PUT PP PAGE
REFERENCES AND/OR EXPLANATIONS
WHERE APPROPRIATE

A. General Criteria Under HG Statutory Authority.

Section 221(a)

Will the proposed project meet the following criteria.

(1) is intended to increase the availability of domestic financing by demonstrating to local entrepreneurs and institutions that providing low-cost housing is financially viable;

Yes

(2) is intended to assist in marshalling resources for low-cost housing;

Yes

(3) supports a pilot project for low-cost shelter, or is intended to have a maximum demonstration impact on local institutions and national policy; and,

Yes

(4) is intended to have a long run goal to develop domestic construction capabilities and stimulate local credit institutions to make available domestic capital and other management and technological resources required for effective low cost shelter programs and policies.

Yes

Section 222(a)

Will the issuance of this guaranty cause the total face amount of guaranties issued and outstanding at this time to be in excess of ~~\$\$,XXX,800,000~~
\$2,158,000,000?

No

Will the guaranty be issued prior to September 30, ~~XXXX~~ 1990?

Yes

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Section 222(b)

Will the proposed guaranty result in activities which emphasize:

(1) projects providing improved home sites to poor families on which to build shelter and related services; or

Yes

(2) projects comprised of expandable core shelter units on serviced sites; or

Yes

(3) slum upgrading projects designed to conserve and improve existing shelter; or

Yes

(4) shelter projects for low-income people designed for demonstration or institution building; or

Yes

(5) community facilities and services in support of projects authorized under this section to improve the shelter occupied by the poor?

Yes

Section 222(c)

If the project requires the use or conservation of energy, was consideration given to the use of solar energy technologies, where economically or technically feasible?

N/A

Section 223(a)

Will the A.I.D. guaranty fee be in an amount authorized by A.I.D. in accordance with its delegated powers?

Yes

Section 223(f)

Is the maximum rate of interest allowable to the eligible U.S. Investor, as prescribed by the Administrator, not more than one percent (1%) above the current rate of interest applicable to housing mortgages insured by the Department of Housing and Urban Development?

Yes

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Section 223(j)

(1) Will the proposed Housing Guaranty be coordinated with and complementary to other development assistance in the host country?

Yes

(2) Will the proposed Housing Guaranty demonstrate the feasibility of particular kinds of housing and other institutional arrangements?

Yes

(3) Is the project designed and planned by A.I.D. so that at least ninety percent (90%) of the face value of the proposed guaranty will be for housing suitable for families below the median urban income for housing in urban areas, in the host country?

Yes

(4) Will the issuance of this guaranty cause the face value of guaranties issued with respect to the host country to exceed \$25 million in any fiscal year?

No

(5) Will the issuance of this guaranty cause the average face value of all housing guaranties issued in this fiscal year to exceed \$15 million?

No

Section 238(c)

Will the guaranty agreement provide that will cover only lenders who are "eligible investors" within the meaning of this section of the statute at the time the guaranty is issued?

Yes

B. Criteria Under General Foreign Assistance Act Authority.

Section 620/620A

(a) Does the host country meet the general criteria for country eligibility under the Foreign Assistance Act as set forth in the country eligibility checklist prepared at the beginning of each year?

Yes

(2) Is there any reason to believe that circumstances have changed in the host country so that it would now be ineligible under the country statutory checklist?

No

5C(1) - COUNTRY CHECKLIST

Listed below are statutory criteria applicable to: (A) FAA funds generally; (B)(1) Development Assistance funds only; or (B)(2) the Economic Support Fund only.

A. GENERAL CRITERIA FOR COUNTRY ELIGIBILITY

1. FY 1989 Appropriations Act Sec. 578(b).
Has the President certified to the Congress that the government of the recipient country is failing to take adequate measures to prevent narcotic drugs or other controlled substances which are cultivated, produced or processed illicitly, in whole or in part, in such country or transported through such country, from being sold illegally within the jurisdiction of such country to United States Government personnel or their dependents or from entering the United States unlawfully?
No

2. FAA Sec. 481(h); FY 1989 Appropriations Act Sec. 578; 1988 Drug Act Secs. 4405-07. (These provisions apply to assistance of any kind provided by grant, sale, loan, lease, credit, guaranty, or insurance, except assistance from the Child Survival Fund or relating to international narcotics control, disaster and refugee relief, narcotics education and awareness, or the provision of food or medicine.) If the recipient is a "major illicit drug producing country" (defined as a country producing during a fiscal year at least five metric tons of opium or 500 metric tons of coca or marijuana) or a "major drug-transit country" (defined as a country that is a significant direct source of illicit drugs significantly affecting the United States, through which such drugs are transported, or through which significant sums of drug-related profits are
No

laundered with the knowledge or complicity of the government): (a) Does the country have in place a bilateral narcotics agreement with the United States, or a multilateral narcotics agreement? and (b) Has the President in the March 1 International Narcotics Control Strategy Report (INSCR) determined and certified to the Congress (without Congressional enactment, within 45 days of continuous session, of a resolution disapproving such a certification), or has the President determined and certified to the Congress on any other date (with enactment by Congress of a resolution approving such certification), that (1) during the previous year the country has cooperated fully with the United States or taken adequate steps on its own to satisfy the goals agreed to in a bilateral narcotics agreement with the United States or in a multilateral agreement, to prevent illicit drugs produced or processed in or transported through such country from being transported into the United States, to prevent and punish drug profit laundering in the country, and to prevent and punish bribery and other forms of public corruption which facilitate production or shipment of illicit drugs or discourage prosecution of such acts, or that (2) the vital national interests of the United States require the provision of such assistance?

3. 1986 Drug Act Sec. 2013; 1988 Drug Act Sec. 4404. (This section applies to the same categories of assistance subject to the restrictions in FAA Sec. 481(h), above.) If recipient country is a "major illicit drug producing country" or "major drug-transit country" (as defined for the purpose of FAA Sec 481(h)), has the President submitted a report to Congress listing such country as one (a) which, as a matter of government policy, encourages or facilitates the production or distribution of illicit drugs; (b) in which any senior official of the

NO

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government engages in, encourages, or facilitates the production or distribution of illegal drugs; (c) in which any member of a U.S. Government agency has suffered or been threatened with violence inflicted by or with the complicity of any government officer; or (d) which fails to provide reasonable cooperation to lawful activities of U.S. drug enforcement agents, unless the President has provided the required certification to Congress pertaining to U.S. national interests and the drug control and criminal prosecution efforts of that country?

4. FAA Sec. 620(c). If assistance is to a government, is the government indebted to any U.S. citizen for goods or services furnished or ordered where (a) such citizen has exhausted available legal remedies, (b) the debt is not denied or contested by such government, or (c) the indebtedness arises under an unconditional guaranty of payment given by such government or controlled entity? No

5. FAA Sec. 620(e)(1). If assistance is to a government, has it (including any government agencies or subdivisions) taken any action which has the effect of nationalizing, expropriating, or otherwise seizing ownership or control of property of U.S. citizens or entities beneficially owned by them without taking steps to discharge its obligations toward such citizens or entities? No

6. FAA Secs. 620(a), 620(f), 620D; FY 1989 Appropriations Act Secs. 512, 550, 592. Is recipient country a Communist country? If so, has the President determined that assistance to the country is vital to the security of the United States, that the recipient country is not controlled by the international Communist conspiracy, and that such assistance will further promote the independence of the recipient country from international communism? Will assistance be provided No

either directly or indirectly to Angola, Cambodia, Cuba, Iraq, Libya, Vietnam, South Yemen, Iran or Syria? Will assistance be provided to Afghanistan without a certification, or will assistance be provided inside Afghanistan through the Soviet-controlled government of Afghanistan?

- 7. FAA Sec. 620(j). Has the country permitted, or failed to take adequate measures to prevent, damage or destruction by mob action of U.S. property? No

- 8. FAA Sec. 620(l). Has the country failed to enter into an investment guaranty agreement with OPIC? Yes. Such failure was taken into account by the Acting Administrator on September 6, 1989 in considering whether to provide the subject assistance in FY 1989

- 9. FAA Sec. 620(o); Fishermen's Protective Act of 1967 (as amended) Sec. 5. (a) Has the country seized, or imposed any penalty or sanction against, any U.S. fishing vessel because of fishing activities in international waters? No
 (b) If so, has any deduction required by the Fishermen's Protective Act been made?

- 10. FAA Sec. 620(q); FY 1989 Appropriations Act Sec. 518. (a) Has the government of the recipient country been in default for more than six months on interest or principal of any loan to the country under the FAA? (b) Has the country been in default for more than one year on interest or principal on any U.S. loan under a program for which the FY 1989 Appropriations Act appropriates funds? No

- 11. FAA Sec. 620(s). If contemplated assistance is development loan or to come from Economic Support Fund, has the Administrator taken into account the percentage of the country's budget and amount of the country's foreign exchange or other resources spent on military equipment? (Reference may be made to the annual "Taking Into Consideration" memo: "Yes, taken into account by the Administrator at time of approval of Not a development loan, Alliance loan or assistance supporting such loan within Sec. 620(s).

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Agency OYB." This approval by the Administrator of the Operational Year Budget can be the basis for an affirmative answer during the fiscal year unless significant changes in circumstances occur.)

12. FAA Sec. 620(t). Has the country severed diplomatic relations with the United States? If so, have relations been resumed and have new bilateral assistance agreements been negotiated and entered into since such resumption? -
Yes, in 1967.
Yes, resumed in 1977.
Subject assistance will be furnished under a bilateral assistance agreement.
13. FAA Sec. 620(u). What is the payment status of the country's U.N. obligations? If the country is in arrears, were such arrearages taken into account by the A.I.D. Administrator in determining the current A.I.D. Operational Year Budget? (Reference may be made to the "Taking into Consideration" memo.) -
Algeria is in arrears in contributions to various non-Regular Budget obligations to the U.N. Such arrearages were taken into account by the Acting Administrator on September 6, 1989 in considering whether to provide the subject assistance in FY 1989.
14. FAA Sec. 620A. Has the President determined that the recipient country grants sanctuary from prosecution to any individual or group which has committed an act of international terrorism or otherwise supports international terrorism? No
15. FY 1989 Appropriations Act Sec. 568. Has the country been placed on the list provided for in Section 6(j) of the Export Administration Act of 1979 (currently Libya, Iran, South Yemen, Syria, Cuba, or North Korea)? No
16. ISDCA of 1985 Sec. 552(b). Has the Secretary of State determined that the country is a high terrorist threat country after the Secretary of Transportation has determined, pursuant to section 1115(e)(2) of the Federal Aviation Act of 1958, that an airport in the country does not maintain and administer effective security measures? No

17. FAA Sec. 666(b). Does the country object, on the basis of race, religion, national origin or sex, to the presence of any officer or employee of the U.S. who is present in such country to carry out economic development programs under the FAA? No
18. FAA Secs. 669, 670. Has the country, after August 3, 1977, delivered to any other country or received nuclear enrichment or reprocessing equipment, materials, or technology, without specified arrangements or safeguards, and without special certification by the President? Has it transferred a nuclear explosive device to a non-nuclear weapon state, or if such a state, either received or detonated a nuclear explosive device? (FAA Sec. 620E permits a special waiver of Sec. 669 for Pakistan.) No
19. FAA Sec. 670. If the country is a non-nuclear weapon state, has it, on or after August 8, 1985, exported (or attempted to export) illegally from the United States any material, equipment, or technology which would contribute significantly to the ability of a country to manufacture a nuclear explosive device? No
20. ISDCA of 1981 Sec. 720. Was the country represented at the Meeting of Ministers of Foreign Affairs and Heads of Delegations of the Non-Aligned Countries to the 36th General Assembly of the U.N. on Sept. 25 and 28, 1981, and did it fail to disassociate itself from the communique issued? If so, has the President taken it into account? (Reference may be made to the "Taking into Consideration" memo.) Yes. Such failure was taken into account by the Acting Administrator on September 6, 198 in considering whether to provide the subject assistance in FY 1989.
21. FY 1989 Appropriations Act Sec. 527. Has the recipient country been determined by the President to have engaged in a consistent pattern of opposition to the foreign policy of the United States? No

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22. FY 1989 Appropriations Act Sec. 513. Has the duly elected Head of Government of the country been deposed by military coup or decree? If assistance has been terminated, has the President notified Congress that a democratically elected government has taken office prior to the resumption of assistance? No

23. FY 1989 Appropriations Act Sec. 540. Does the recipient country fully cooperate with the international refugee assistance organizations, the United States, and other governments in facilitating lasting solutions to refugee situations, including resettlement without respect to race, sex, religion, or national origin? No

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B. FUNDING SOURCE CRITERIA FOR COUNTRY ELIGIBILITY

1. Development Assistance Country Criteria

FAA Sec. 116. Has the Department of State determined that this government has engaged in a consistent pattern of gross violations of internationally recognized human rights? If so, can it be demonstrated that contemplated assistance will directly benefit the needy?

No

FY 1989 Appropriations Act Sec. 536. Has the President certified that use of DA funds by this country would violate any of the prohibitions against use of funds to pay for the performance of abortions as a method of family planning, to motivate or coerce any person to practice abortions, to pay for the performance of involuntary sterilization as a method of family planning, to coerce or provide any financial incentive to any person to undergo sterilizations, to pay for any biomedical research which relates, in whole or in part, to methods of, or the performance of, abortions or involuntary sterilization as a means of family planning?

No

2. Economic Support Fund Country Criteria

FAA Sec. 502B. Has it been determined that the country has engaged in a consistent pattern of gross violations of internationally recognized human rights? If so, has the President found that the country made such significant improvement in its human rights record that furnishing such assistance is in the U.S. national interest?

No

FY 1989 Appropriations Act Sec. 578(d). Has this country met its drug eradication targets or otherwise taken significant steps to halt illicit drug production or trafficking?

Yes

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5C(2) - PROJECT CHECKLIST

Listed below are statutory criteria applicable to projects. This section is divided into two parts. Part A includes criteria applicable to all projects. Part B applies to projects funded from specific sources only: B(1) applies to all projects funded with Development Assistance; B(2) applies to projects funded with Development Assistance loans; and B(3) applies to projects funded from ESF.

CROSS REFERENCES: IS COUNTRY CHECKLIST UP TO DATE? HAS STANDARD ITEM CHECKLIST BEEN REVIEWED FOR THIS PROJECT?

A. GENERAL CRITERIA FOR PROJECT

1. FY 1989 Appropriations Act Sec. 523; FAA Sec. 634A. If money is sought to obligated for an activity not previously justified to Congress, or for an amount in excess of amount previously justified to Congress, has Congress been properly notified?

N/A
2. FAA Sec. 611(a)(1). Prior to an obligation in excess of \$500,000, will there be (a) engineering, financial or other plans necessary to carry out the assistance, and (b) a reasonably firm estimate of the cost to the U.S. of the assistance?

No obligation in excess of \$500,000
3. FAA Sec. 611(a)(2). If legislative action is required within recipient country, what is the basis for a reasonable expectation that such action will be completed in time to permit orderly accomplishment of the purpose of the assistance?

No obligation in excess of \$500,000

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4. FAA Sec. 611(b); FY 1989 Appropriations Act Sec. 501. If project is for water or water-related land resource construction, have benefits and costs been computed to the extent practicable in accordance with the principles, standards, and procedures established pursuant to the Water Resources Planning Act (42 U.S.C. 1962, et seq.)? (See A.I.D. Handbook 3 for guidelines.) N/A
5. FAA Sec. 611(e). If project is capital assistance (e.g., construction), and total U.S. assistance for it will exceed \$1 million, has Mission Director certified and Regional Assistant Administrator taken into consideration the country's capability to maintain and utilize the project effectively? N/A
6. FAA Sec. 209. Is project susceptible to execution as part of regional or multilateral project? If so, why is project not so executed? Information and conclusion whether assistance will encourage regional development programs. No
7. FAA Sec. 601(a). Information and conclusions on whether projects will encourage efforts of the country to:
(a) increase the flow of international trade; (b) foster private initiative and competition; (c) encourage development and use of cooperatives, credit unions, and savings and loan associations; (d) discourage monopolistic practices; (e) improve technical efficiency of industry, agriculture and commerce; and (f) strengthen free labor unions. Project will encourage private sector development, improve private and public technical efficiency, encourage domestic savings, initiate market practices into housing bank and equivalent treatment of private sector.
8. FAA Sec. 601(b). Information and conclusions on how project will encourage U.S. private trade and investment abroad and encourage private U.S. participation in foreign assistance programs (including use of private trade channels and the services of U.S. private enterprise). Project will involve "eligible (U.S.) investor" loan to Algerian project borrower, and will expose Algerian counterparts to U.S. construction etc. consultants.

9. FAA Secs. 612(b), 636(h). Describe steps taken to assure that, to the maximum extent possible, the country is contributing local currencies to meet the cost of contractual and other services, and foreign currencies owned by the U.S. are utilized in lieu of dollars.
- No U.S. owned local currency.
GOA will contribute \$200,000 equivalent for technical assistance and training needs.
10. FAA Sec. 612(d). Does the U.S. own excess foreign currency of the country and, if so, what arrangements have been made for its release?
- No
11. FY 1989 Appropriations Act Sec. 521. If assistance is for the production of any commodity for export, is the commodity likely to be in surplus on world markets at the time the resulting productive capacity becomes operative, and is such assistance likely to cause substantial injury to U.S. producers of the same, similar or competing commodity?
- N/A
12. FY 1989 Appropriations Act Sec. 549. Will the assistance (except for programs in Caribbean Basin Initiative countries under U.S. Tariff Schedule "Section 807," which allows reduced tariffs on articles assembled abroad from U.S.-made components) be used directly to procure feasibility studies, prefeasibility studies, or project profiles of potential investment in, or to assist the establishment of facilities specifically designed for, the manufacture for export to the United States or to third country markets in direct competition with U.S. exports, of textiles, apparel, footwear, handbags, flat goods (such as wallets or coin purses worn on the person), work gloves or leather wearing apparel?
- N/A
13. FAA Sec. 119(q)(4)-(6) & (10). Will the assistance (a) support training and education efforts which improve the capacity of recipient countries to prevent loss of biological diversity; (b) be provided under a long-term agreement in which the recipient country agrees to protect ecosystems or other
- No, project is not designed for Section 119 purposes.

wildlife habitats; (c) support efforts to identify and survey ecosystems in recipient countries worthy of protection; or (d) by any direct or indirect means significantly degrade national parks or similar protected areas or introduce exotic plants or animals into such areas?

14. FAA Sec. 121(d). If a Sahel project, has a determination been made that the host government has an adequate system for accounting for and controlling receipt and expenditure of project funds (either dollars or local currency generated therefrom)? N/A
15. FY 1989 Appropriations Act. If assistance is to be made to a United States PVO (other than a cooperative development organization), does it obtain at least 20 percent of its total annual funding for international activities from sources other than the United States Government? N/A
16. FY 1989 Appropriations Act Sec. 538. If assistance is being made available to a PVO, has that organization provided upon timely request any document, file, or record necessary to the auditing requirements of A.I.D., and is the PVO registered with A.I.D.? N/A
17. FY 1989 Appropriations Act Sec. 514. If funds are being obligated under an appropriation account to which they were not appropriated, has prior approval of the Appropriations Committees of Congress been obtained? N/A
18. State Authorization Sec. 139 (as interpreted by conference report). Has confirmation of the date of signing of the project agreement, including the amount involved, been cabled to State L/T and A.I.D. LEG within 60 days of the agreement's entry into force with respect to the United States, and has the full text of the agreement been pouched to those same offices? (See Handbook 3, Appendix 6G for agreements covered by this provision). Project Agreements to be entered into will comply with S.A. Sec. 139.

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B. FUNDING CRITERIA FOR PROJECT

1. Development Assistance Project Criteria

a. FY 1989 Appropriations Act Sec. 548
(as interpreted by conference report for original enactment). If assistance is for agricultural development activities (specifically, any testing or breeding feasibility study, variety improvement or introduction, consultancy, publication, conference, or training), are such activities (a) specifically and principally designed to increase agricultural exports by the host country to a country other than the United States, where the export would lead to direct competition in that third country with exports of a similar commodity grown or produced in the United States, and can the activities reasonably be expected to cause substantial injury to U.S. exporters of a similar agricultural commodity; or (b) in support of research that is intended primarily to benefit U.S. producers?

N/A

b. FAA Secs. 102(b), 111, 113, 281(a).
Describe extent to which activity will (a) effectively involve the poor in development by extending access to economy at local level, increasing labor-intensive production and the use of appropriate technology, dispersing investment from cities to small towns and rural areas, and insuring wide participation of the poor in the benefits of development on a sustained basis, using appropriate U.S. institutions; (b) help develop cooperatives, especially by technical assistance, to assist rural and urban poor to help themselves toward a better life, and otherwise encourage democratic private and local governmental

Project will promote labor-intensive, appropriate construction technologies, sustainability of housing finance institutions, targeting of resources to below-medium families and self-help construction.

institutions; (c) support the self-help efforts of developing countries; (d) promote the participation of women in the national economies of developing countries and the improvement of women's status; and (e) utilize and encourage regional cooperation by developing countries.

- c. FAA Secs. 103, 103A, 104, 105, 106, 120-21; FY 1989 Appropriations Act (Development Fund for Africa). Does the project fit the criteria for the source of funds (functional account) being used? Yes

- d. FAA Sec. 107. Is emphasis placed on use of appropriate technology (relatively smaller, cost-saving, labor-using technologies that are generally most appropriate for the small farms, small businesses, and small incomes of the poor)? Yes

- e. FAA Secs. 110, 124(d). Will the recipient country provide at least 25 percent of the costs of the program, project, or activity with respect to which the assistance is to be furnished (or is the latter cost-sharing requirement being waived for a "relatively least developed" country)? Yes, to the extent the FAA requirement is applicable to project TA component

- f. FAA Sec. 128(b). If the activity attempts to increase the institutional capabilities of private organizations or the government of the country, or if it attempts to stimulate scientific and technological research, has it been designed and will it be monitored to ensure that the ultimate beneficiaries are the poor majority? Project is designed to meet FAA Section 223(f) requirement re below medium income families.

g. FAA Sec. 281(b). Describe extent to which program recognizes the particular needs, desires, and capacities of the people of the country; utilizes the country's intellectual resources to encourage institutional development; and supports civil education and training in skills required for effective participation in governmental processes essential to self-government.

Project is designed to build upon and strengthen GOA capacity to analyze existing policies and initiate policy reform.

h. FY 1989 Appropriations Act Sec. 536. Are any of the funds to be used for the performance of abortions as a method of family planning or to motivate or coerce any person to practice abortions?

No

Are any of the funds to be used to pay for the performance of involuntary sterilization as a method of family planning or to coerce or provide any financial incentive to any person to undergo sterilizations?

No

Are any of the funds to be used to pay for any biomedical research which relates, in whole or in part, to methods of, or the performance of, abortions or involuntary sterilization as a means of family planning?

No

i. FY 1989 Appropriations Act. Is the assistance being made available to any organization or program which has been determined to support or participate in the management of a program of coercive abortion or involuntary sterilization?

No

If assistance is from the population functional account, are any of the funds to be made available to voluntary family planning projects which do not offer, either directly or through referral to or information about access to, a broad range of family planning methods and services?

N/A

- j. FAA Sec. 601(e). Will the project utilize competitive selection procedures for the awarding of contracts, except where applicable procurement rules allow otherwise? Yes
- k. FY 1989 Appropriations Act. What portion of the funds will be available only for activities of economically and socially disadvantaged enterprises, historically black colleges and universities, colleges and universities having a student body in which more than 40 percent of the students are Hispanic Americans, and private and voluntary organizations which are controlled by individuals who are black Americans, Hispanic Americans, or Native Americans, or who are economically or socially disadvantaged (including women)? N/A
- l. FAA Sec. 118(c). Does the assistance comply with the environmental procedures set forth in A.I.D. Regulation 16? Does the assistance place a high priority on conservation and sustainable management of tropical forests? Specifically, does the assistance, to the fullest extent feasible: (a) stress the importance of conserving and sustainably managing forest resources; (b) support activities which offer employment and income alternatives to those who otherwise would cause destruction and loss of forests, and help countries identify and implement alternatives to colonizing forested areas; (c) support training programs, educational efforts, and the establishment or strengthening of institutions to improve forest management; (d) help end destructive slash-and-burn agriculture by supporting stable and productive farming practices; (e) help conserve forests which have not yet been degraded by helping to increase Yes.
N/A

production on lands already cleared or degraded; (f) conserve forested watersheds and rehabilitate those which have been deforested; (g) support training, research, and other actions which lead to sustainable and more environmentally sound practices for timber harvesting, removal, and processing; (h) support research to expand knowledge of tropical forests and identify alternatives which will prevent forest destruction, loss, or degradation; (i) conserve biological diversity in forest areas by supporting efforts to identify, establish, and maintain a representative network of protected tropical forest ecosystems on a worldwide basis, by making the establishment of protected areas a condition of support for activities involving forest clearance or degradation, and by helping to identify tropical forest ecosystems and species in need of protection and establish and maintain appropriate protected areas; (j) seek to increase the awareness of U.S. government agencies and other donors of the immediate and long-term value of tropical forests; and (k) utilize the resources and abilities of all relevant U.S. government agencies?

- m. FAA Sec. 118(c)(13). If the assistance will support a program or project significantly affecting tropical forests (including projects involving the planting of exotic plant species), will the program or project (a) be based upon careful analysis of the alternatives available to achieve the best sustainable use of the land, and (b) take full account of the environmental impacts of the proposed activities on biological diversity?

N/A

- n. FAA Sec. 118(c)(14). Will assistance be used for (a) the procurement or use of logging equipment, unless an environmental assessment indicates that all timber harvesting operations involved will be conducted in an environmentally sound manner and that the proposed activity will produce positive economic benefits and sustainable forest management systems; or (b) actions which will significantly degrade national parks or similar protected areas which contain tropical forests, or introduce exotic plants or animals into such areas? N/A
- o. FAA Sec. 118(c)(15). Will assistance be used for (a) activities which would result in the conversion of forest lands to the rearing of livestock; (b) the construction, upgrading, or maintenance of roads (including temporary haul roads for logging or other extractive industries) which pass through relatively undegraded forest lands; (c) the colonization of forest lands; or (d) the construction of dams or other water control structures which flood relatively undegraded forest lands, unless with respect to each such activity an environmental assessment indicates that the activity will contribute significantly and directly to improving the livelihood of the rural poor and will be conducted in an environmentally sound manner which supports sustainable development? N/A
- p. FY 1989 Appropriations Act. If assistance will come from the Sub-Saharan Africa DA account, is it (a) to be used to help the poor majority in Sub-Saharan Africa through a process of long-term development and economic growth that is equitable, participatory, environmentally sustainable, and self-reliant; (b) being provided in accordance with the policies contained in section 102 of the FAA; N/A

(c) being provided, when consistent with the objectives of such assistance, through African, United States and other PVOs that have demonstrated effectiveness in the promotion of local grassroots activities on behalf of long-term development in Sub-Saharan Africa; (d) being used to help overcome shorter-term constraints to long-term development, to promote reform of sectoral economic policies, to support the critical sector priorities of agricultural production and natural resources, health, voluntary family planning services, education, and income generating opportunities, to bring about appropriate sectoral restructuring of the Sub-Saharan African economies, to support reform in public administration and finances and to establish a favorable environment for individual enterprise and self-sustaining development, and to take into account, in assisted policy reforms, the need to protect vulnerable groups; (e) being used to increase agricultural production in ways that protect and restore the natural resource base, especially food production, to maintain and improve basic transportation and communication networks, to maintain and restore the renewable natural resource base in ways that increase agricultural production, to improve health conditions with special emphasis on meeting the health needs of mothers and children, including the establishment of self-sustaining primary health care systems that give priority to preventive care, to provide increased access to voluntary family planning services, to improve basic literacy and mathematics especially to those outside the formal educational system and to improve primary education, and to develop income-generating opportunities for the unemployed and underemployed in urban and rural areas?

9. FY 1989 Appropriations Act Sec. 515.
If deob/reob authority is sought to be exercised in the provision of DA assistance, are the funds being obligated for the same general purpose, and for countries within the same general region as originally obligated, and have the Appropriations Committees of both Houses of Congress been properly notified? N/A

2. Development Assistance Project Criteria (Loans Only)

- a. FAA Sec. 122(b). Information and conclusion on capacity of the country to repay the loan at a reasonable rate of interest. N/A
- b. FAA Sec. 620(d). If assistance is for any productive enterprise which will compete with U.S. enterprises, is there an agreement by the recipient country to prevent export to the U.S. of more than 20 percent of the enterprise's annual production during the life of the loan, or has the requirement to enter into such an agreement been waived by the President because of a national security interest? N/A
- c. FAA Sec. 122(b). Does the activity give reasonable promise of assisting long-range plans and programs designed to develop economic resources and increase productive capacities? N/A

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3. Economic Support Fund Project Criteria

- a. FAA Sec. 531(a). Will this assistance promote economic and political stability? To the maximum extent feasible, is this assistance consistent with the policy directions, purposes, and programs of Part I of the FAA? Yes
- b. FAA Sec. 531(e). Will this assistance be used for military or paramilitary purposes? No
- c. FAA Sec. 609. If commodities are to be granted so that sale proceeds will accrue to the recipient country, have Special Account (counterpart) arrangements been made? N/A

5C(3) - STANDARD ITEM CHECKLIST

Listed below are the statutory items which normally will be covered routinely in those provisions of an assistance agreement dealing with its implementation, or covered in the agreement by imposing limits on certain uses of funds.

These items are arranged under the general headings of (A) Procurement, (B) Construction, and (C) Other Restrictions.

A. PROCUREMENT

1. FAA Sec. 602(a). Are there arrangements to permit U.S. small business to participate equitably in the furnishing of commodities and services financed? N/A - no project procurement
2. FAA Sec. 604(a). Will all procurement be from the U.S. except as otherwise determined by the President or determined under delegation from him? N/A
3. FAA Sec. 604(d). If the cooperating country discriminates against marine insurance companies authorized to do business in the U.S., will commodities be insured in the United States against marine risk with such a company? N/A
4. FAA Sec. 604(e); ISDCA of 1980 Sec. 705(a). If non-U.S. procurement of agricultural commodity or product thereof is to be financed, is there provision against such procurement when the domestic price of such commodity is less than parity? (Exception where commodity financed could not reasonably be procured in U.S.) N/A

5. FAA Sec. 604(q). Will construction or engineering services be procured from firms of advanced developing countries which are otherwise eligible under Code 941 and which have attained a competitive capability in international markets in one of these areas? (Exception for those countries which receive direct economic assistance under the FAA and permit United States firms to compete for construction or engineering services financed from assistance programs of these countries.) N/A
6. FAA Sec. 603. Is the shipping excluded from compliance with the requirement in section 901(b) of the Merchant Marine Act of 1936, as amended, that at least 50 percent of the gross tonnage of commodities (computed separately for dry bulk carriers, dry cargo liners, and tankers) financed shall be transported on privately owned U.S. flag commercial vessels to the extent such vessels are available at fair and reasonable rates? N/A
7. FAA Sec. 621(a). If technical assistance is financed, will such assistance be furnished by private enterprise on a contract basis to the fullest extent practicable? Will the facilities and resources of other Federal agencies be utilized, when they are particularly suitable, not competitive with private enterprise, and made available without undue interference with domestic programs? Yes
No services etc. of Federal agencies will be utilized.
8. International Air Transportation Fair Competitive Practices Act, 1974. If air transportation of persons or property is financed on grant basis, will U.S. carriers be used to the extent such service is available? Yes
9. FY 1989 Appropriations Act Sec. 504. If the U.S. Government is a party to a contract for procurement, does the contract contain a provision authorizing termination of such contract for the convenience of the United States? N/A

10. FY 1989 Appropriations Act Sec. 524. If assistance is for consulting service through procurement contract pursuant to 5 U.S.C. 3109, are contract expenditures a matter of public record and available for public inspection (unless otherwise provided by law or Executive order)?
- Yes

B. CONSTRUCTION

1. FAA Sec. 601(d). If capital (e.g., construction) project, will U.S. engineering and professional services be used?
- N/A - not a capital project
2. FAA Sec. 611(c). If contracts for construction are to be financed, will they be let on a competitive basis to maximum extent practicable?
- N/A
3. FAA Sec. 620(k). If for construction of productive enterprise, will aggregate value of assistance to be furnished by the U.S. not exceed \$100 million (except for productive enterprises in Egypt that were described in the CP), or does assistance have the express approval of Congress?
- N/A

C. OTHER RESTRICTIONS

1. FAA Sec. 122(b). If development loan repayable in dollars, is interest rate at least 2 percent per annum during a grace period which is not to exceed ten years, and at least 3 percent per annum thereafter?
- N/A
2. FAA Sec. 301(d). If fund is established solely by U.S. contributions and administered by an international organization, does Comptroller General have audit rights?
- N/A

3. FAA Sec. 620(h). Do arrangements exist to insure that United States foreign aid is not used in a manner which, contrary to the best interests of the United States, promotes or assists the foreign aid projects or activities of the Communist-bloc countries? Yes
4. Will arrangements preclude use of financing:
- a. FAA Sec. 104(f); FY 1989 Appropriations Act Secs. 525, 536.
(1) To pay for performance of abortions as a method of family planning or to motivate or coerce persons to practice abortions; (2) to pay for performance of involuntary sterilization as method of family planning, or to coerce or provide financial incentive to any person to undergo sterilization; (3) to pay for any biomedical research which relates, in whole or part, to methods or the performance of abortions or involuntary sterilizations as a means of family planning; or (4) to lobby for abortion? Yes
- b. FAA Sec. 483. To make reimbursements, in the form of cash payments, to persons whose illicit drug crops are eradicated? Yes
- c. FAA Sec. 620(q). To compensate owners for expropriated or nationalized property, except to compensate foreign nationals in accordance with a land reform program certified by the President? Yes
- d. FAA Sec. 660. To provide training, advice, or any financial support for police, prisons, or other law enforcement forces, except for narcotics programs? Yes
- e. FAA Sec. 662. For CIA activities? Yes

- f. FAA Sec. 636(i). For purchase, sale, long-term lease, exchange or guaranty of the sale of motor vehicles manufactured outside U.S., unless a waiver is obtained? Yes
- g. FY 1989 Appropriations Act Sec. 503. To pay pensions, annuities, retirement pay, or adjusted service compensation for prior or current military personnel? Yes
- h. FY 1989 Appropriations Act Sec. 505. To pay U.N. assessments, arrearages or dues? Yes
- i. FY 1989 Appropriations Act Sec. 506. To carry out provisions of FAA section 209(d) (transfer of FAA funds to multilateral organizations for lending)? Yes
- j. FY 1989 Appropriations Act Sec. 510. To finance the export of nuclear equipment, fuel, or technology? Yes
- k. FY 1989 Appropriations Act Sec. 511. For the purpose of aiding the efforts of the government of such country to repress the legitimate rights of the population of such country contrary to the Universal Declaration of Human Rights? Yes
- l. FY 1989 Appropriations Act Sec. 516; State Authorization Sec. 109. To be used for publicity or propaganda purposes designed to support or defeat legislation pending before Congress, to influence in any way the outcome of a political election in the United States, or for any publicity or propaganda purposes not authorized by Congress? Yes
- 5. FY 1989 Appropriations Act Sec. 584. Will any A.I.D. contract and solicitation, and subcontract entered into under such contract, include a clause requiring that U.S. marine insurance companies have a fair opportunity to bid for marine insurance when such insurance is necessary or appropriate? Yes

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وزارة الشؤون الخارجية
MINISTÈRE
DES AFFAIRES ETRANGERES

1646

الجمهورية الجزائرية الديمقراطية الشعبية
REPUBLIQUE ALGERIENNE
DEMOCRATIQUE ET POPULAIRE

DIRECTION EUROPE OCCIDENTALE
AMERIQUE DU NORD

الجزائر في 27 AOUT 1989
Alger, le.....

NE 2759 / MAE/DEOAN/SDAN

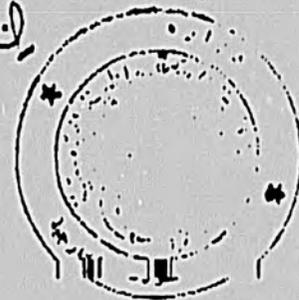
ANNEX D

Le Ministère des Affaires Etrangères de la République Algérienne Démocratique et Populaire présente ses compliments à l'Ambassade des Etats-Unis d'Amérique à Alger et, se référant à la visite effectuée en Algérie au cours du mois de Juin 1989, par la délégation de l'US-AID conduite par Monsieur DAVID ALINGER, Directeur du bureau régional, a l'honneur de l'informer que le Ministère de la Construction et de l'Urbanisme répond favorablement à l'approche pluri-annuelle d'un programme de coopération dans le domaine de la construction, mis au point en commun lors de ladite visite.

Une copie du programme précité est jointe en annexe.

Le Ministère des Affaires Etrangères saisit cette occasion pour renouveler à l'Ambassade des Etats-Unis d'Amérique les assurances de sa haute considération.

AMBASSADE DES ETATS UNIS D AMERIQUE
A ALGER.



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ANNEXE 1

COMPOSITION DE LA DELEGATION AMERICAINE

DAVID OLINGER : Chef du département moyen-orient et Afrique du Nord, Chef de délégation.

SAMIR KANOUN : Conseiller financier à l'U.S.AID.

Madame ALEXIS : Chef de Bureau Construction à l'U.S.AID.

DAVID MORRIS : Ambassade des U.S.A à Alger.

PROGRAMME D'INTERVENTION PRIORITAIRE

DE L'U.S.AID.

I. L'ORGANISATION D'UN MARCHÉ FONCIER ET IMMOBILIER

- Promulgation des lois autorisant et régissant les transactions foncières et immobilières entre les personnes physiques ou morales de droit privé et entre ces dernières et l'Etat ou les organismes étatiques.

II. ACCELERER LA REDYNAMISATION ET LA CROISSANCE DU SECTEUR POUR LA PROMOTION, LA PRODUCTION, LA GESTION ET L'ENTRETIEN DE L'HABITAT.

- Faciliter et encourager la création d'entreprises privées de prestation de services relatifs à l'Habitat, telles que les Bureaux d'architectures, d'ingénierie, de contrôle et de pilotage ainsi que les entreprises d'entretien et les agences immobilières.
- Améliorer les procédures de création d'entreprises privées et celles relatives aux autorisations et approbations nécessaires pour la promotion et la réalisation des projets d'Habitat.
- Faciliter l'accès au financement de la construction et de l'acquisition de l'Habitat.

III. ADAPTER LES PROGRAMMES ETATIQUES ET PRIVÉS D'HABITAT AU POUVOIR D'ACHAT DES POPULATIONS LES MOINS AISEES.

- Révision des codes d'urbanisme, des normes et des spécifications techniques en vue de leur adaptation aux goûts, au pouvoir d'achat et aux spécificités

ACTIVITES

PLANNING

PERIODES

ANNEXES III

I/ DOCUMENT D'IDENTIFICATION DU PROGRAMME : 22/06/1989

Présentation du det à Washington : 08/07/1989 à 14/07/1989

Retour de l'équipe de l'U.S.AID à Alger: 15/07/1989 à Fin Août 1989

(Le document de programme sera préparé en 2 ou 3 semaines durant cette période)

Lettre du Gouvernement Algérien confirmant la demande de coopération avec l'U.S.AID

Au plus tard le 15/09/1989 (de préférence avant le 15/07/1989)

II/ PREPARATION DET FINAL : ENTRE FIN AOUT ET LE 15/09/1989

Transmission document final à Washington : 15/09/1989

Approbation document final entre le 15/09 et le 30/09/1989

Convention d'accord : négociation entre Gouvernement et U.S.AID 30 jours (texte en français et en Anglais)

10 OCT _____ 30 OCT.

Appels d'offres sur le marché américain : Pour cette première tranche, il n'ya pas de conditions

- le choix de l'investisseur est du ressort de l'Algérie
- Les conditions du prêt sont déterminées également par l'Algérie
- Signature accord entre Banque et bailleur de fonds
- Les programmes suivants feront l'objet soit de nouveaux accords soit d'amendements de l'accord précédent.

LISTE DES ORIENTATIONS ET POLITIQUES POUVANT
ETRE SOUTENUES PAR LE PROGRAMME U.S.AID.

I. LA CREATION D'UN MARCHE FONCIER ET IMMOBILIER :

- Promulgation des lois autorisant et régissant les transactions foncières et immobilières entre les personnes physiques ou morales de droit privé et entre ces dernières et l'Etat ou les organismes étatiques.
- L'alignement graduel du pourcentage des dépenses des ménages au titre de l'Habitat avec ceux généralement observés dans les autres pays de la région.
- L'encouragement de l'accès à la propriété d'un logement plutôt que la location, jetant ainsi les bases de la création d'un marché immobilier locatif et d'acquisition.
- Augmenter la participation des bénéficiaires au financement de leur logement et limiter le soutien financier de l'Etat et ses programmes d'Habitat aux ménages les moins aisés.
- Confier le financement de l'Habitat aussi bien pour les programmes publics d'Etat que ceux des privés, aux banques primaires.

II. ACCELERER LA REDYNAMISATION ET LA CROISSANCE DU SECTEUR
PRIVE POUR LA PRODUCTION ET L'ENTRETIEN DE L'HABITAT

- Améliorer les procédures de création d'entreprises privées et celles relatives aux autorisations et approbations nécessaires pour la promotion et la réalisation des projets d'Habitat.
- Encourager l'auto-construction et la production de terrains équipés à cet effet.

.../...

- Faciliter l'accès au financement de la construction et de l'acquisition de l'Habitat
- Faciliter et encourager la création d'entreprises privées de production de services relatifs à l'Habitat, telles que les Bureaux d'architecture, d'ingénierie, de contrôle et de pilotage et ainsi que les entreprises d'entretien et les agences immobilières.
- Encourager la création d'entreprises privées de production de matériaux de construction
- Faciliter l'accès aux matériaux de construction à travers une augmentation de la production et des importations et à travers l'amélioration des réseaux de distribution.

III. ADAPTER LES PROGRAMMES ETATIQUES ET PRIVÉS D'HABITAT AU POUVOIR D'ACHAT DES POPULATIONS LES MOINS AISEES.

- ... des codes d'urbanisme, des normes et des spécifications techniques en vue de leur adaptation aux goûts, au pouvoir d'achat et aux spécificités régionales.
- Lancement de programmes d'Habitat étatiques et privés à la portée financière des ménages à faible revenu et introduction de produits tels que le logement évolutif, la viabilisation partielle ou les solutions alternatives d'assainissement et d'évacuation des eaux pluviales
 - Conception de programmes de financement de l'Habitat adaptés aux conditions des ménages à faible revenu.
 - Orientation de l'aide financière et des programmes d'Habitat de l'Etat aux ménages à faible revenu.
 - Développement de l'utilisation des matériaux locaux.

.../...

IV. RESOLUTION ET PREVENTION DE L'HABITAT PRECAIRE

V. RENFORCEMENT DE LA MASTRISE D'OUVRAGE

- Améliorer l'efficacité et les performances des maîtrises d'ouvrages existantes.
- Encourager l'investissement privé dans le domaine de la promotion immobilière.

ANNEX E

PROGRAM ANALYSES

I. THE CONSTRUCTION INDUSTRY-PUBLIC AND PRIVATE SECTOR

A. OVERVIEW:

Current Housing Stock and Infrastructure Coverage

According to the 1987 census, there were 3,054,292 occupied housing units, of which slightly less than half were in urban areas. Between 1987 and the present, approximately 196,000 units were constructed, making a total of 3,250,000 dwelling units. The number of persons per dwelling unit was 7.33 for urban areas in 1987, compared to a household size of 6.77, indicating that a certain number of households are sharing quarters. However, this figure represents an improvement over the 1980 estimate of 8.3 persons per dwelling unit.

Infrastructure coverage is high, especially in urban areas. The World Bank estimates that over 80% of urban households had both direct water and public sewer connections. Census statistics reveal that on the national level, 56% of all houses had either direct water connections or wells, while 70% had either sewer or septic tank connections.

There are a certain number of vacant units, difficult to quantify, which appear to be related to problems in the housing market. In fact, these are not "vacancies", in the normal sense of the word. They are units which are not occupied, but are in fact attributed to someone. The reasons are, first that some legal tenants of public social housing have actually constructed houses for themselves, but do not give up their claim to their social housing unit, and prefer to close it up, waiting for the right time to sell. Second, some units have been retained by various public administrations for use by their personnel, as transfers around the country are frequent and the only housing available is government-built units. Third, there are a number of vacation houses, especially along the coast in resort complexes, which are only occupied for a few months of the year. Finally, at any given time there are new housing developments which have been completed, but have not yet been certified for occupancy, usually because the necessary infrastructure has not kept pace with the housing construction. For all of these reasons, the level of vacant units is probably highly overestimated in the census data.

B. THE PRIVATE SECTOR CONSTRUCTION INDUSTRY

1. Legal and Structural Reforms to Encourage the Private Sector Construction Industry

a. Legal

In 1986, the GOA promulgated a housing development reform act intended to enhance housing production in general and to stimulate development of a private housing market in particular. The reform act authorizes the development of private housing projects which do not exceed 200 units each. The 1986 reform act also institutes a systematic program for the sale of the government-owned housing stock, which is widely recognized to be a prerequisite for creation of a private sector housing market.

Under the terms of the private sector enterprise act of 1988, the products made by private companies can be sold on the open market and are not subject to price controls or distribution controls which govern products made by state enterprises. The law also removes limits on the size of private investment and removes all special privileges public sector agencies previously enjoyed.

b. Structural

In 1988, the GOA launched a new program to stimulate private investment in new industries, with construction material production being one of the sectors designated to receive the benefits of a special package of incentives. The incentive package includes access to land and credit to build the production plant required, tax credits and access to a special fund for importing the essential equipment to launch the new venture. The program is administered by the Chamber of Commerce and is open to any private investor interested in starting a new company to produce eligible products as defined each year by the government.

The key element of the program is the special fund which allows access to foreign currency for importing equipment. In 1988, the first year of the program, the fund was AD 1.8 billion plus an additional AD 1 billion specifically for stimulating 200 new private brick making operations. Despite the fact that

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seismic conditions limit the use of brick to non-loadbearing walls, except in areas of the country which are remote from the clay deposits, the GOA believes that wider use of brick will diminish the demand for cement and consequently benefit the sector significantly. Equipment to make stabilized earth bricks is also being imported under this program as it is suitable for low rise construction in areas not prone to earthquakes and can be made from a wider range of soil types than can kiln fired bricks, thus reducing transport costs.

As an essential complement to the fund for importing equipment for new industries, the GOA made available for the first time in 1989 AD 4 billion as a special foreign currency reserve for the importation of raw materials needed by private industries on a recurrent basis. Creation of a new private company is a simple process of registration, no approval is required, and it takes only a few days to complete.

c. Proposed Legislation

A new law currently under discussion would remove housing project size limits and expand the options open to private housing developers.

Another new joint-venture law is currently being discussed and some form of law authorizing foreign private investment is expected this year, but the terms and conditions are not yet clear. The objective of the joint-venture law will be to encourage foreign companies to invest in plants to produce construction materials and other products not currently being produced in Algeria. While this is unlikely to occur rapidly and will certainly require a number of parallel reforms, it is an encouraging sign.

2. Number of Firms and Their Importance

In 1987 there were 8,512 companies engaged in construction contracting or sub-contracting. Of these, 7,464 were private companies, mostly sub-contractors. These figures suggest that the construction industry is predominantly private sector, but the relative size of the public sector companies is more accurately illustrated by the number of people employed. In 1987 the total employment in the construction industry was 566,537 of which only 82,602 were employed by the 7,464 private contractors. Prior to 1985, the government held

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virtually sole responsibility for the production of housing and let contracts only for very large projects. As a result, a few contractors, mostly public ones, dominated the industry, a situation which contributed to rising costs and diminishing quality of construction which often accompanies a lack of competition. At a 1984 meeting attended by more than 5,000 private sector construction contractors, only nine reported working in the housing sector.

3. Private contractors

a. Subcontract with the public sector

The first and most common type of relation between the public and private sector is subcontracting. Public enterprises have traditionally sub-contracted much of the specialized work, such as heating, plumbing and electrical wiring to private firms and increasingly are contracting the entire work, especially for smaller projects, to private construction companies.

When awarded a contract by a public agency, private contractors are required to provide a construction completion guarantee from a bank. It is the Credit Populaire d'Algérie (CPA) which generally provides these guarantees. To do so, CPA requires the contractor to keep on deposit an amount equal to 5% of the total contract. Upon signing the contract, the contractor receives an advance of 5-15% of the total contract to cover start-up costs and, in theory, the initial purchases of materials needed to start the job. In practice, because materials must be stockpiled and material costs are as much as 70% of the total cost of construction, private contractors must have very large capital reserves, or very large lines-of-credit, in order to work within the present system.

b. Contracts with Private Individuals

The second type of relation is between private contractors and private individuals. When private contractors are hired by private land owners to build an individual house other problems may come into play. The most common situation is when an individual (family group) has purchased a lot from the local authority in a new subdivision. If the contractor has a stockpile of materials or if the

owner himself has acquired the essential materials, work may be completed under a negotiated contract at a fixed price within a few months, but often the house remains uninhabitable for several years, until the local government provides the utility hook-ups. In these private contractor to private individual situations, the client may require a completion guarantee but is also likely to provide an advance payment to the contractor of 25% or more, with progress payments as work proceeds. As a percentage of total housing units built each year, this approach is rapidly becoming the most common.

c. Contracts with Private Developers

The third type of relationship involving the private sector in housing production is when a private developer hires a private contractor to build houses he intends to sell on land he has acquired. This is a relatively new occurrence as it has only been possible since 1986. There is consequently, very little experience, but a number of problems have surfaced. The primary problems from the contractor's perspective are the uncertainty of timely payments and approval to proceed with the work due to delays in the permit process, plus the usual problems of material shortages. Public sector clients tend to wait until plans are approved before bidding, while private developers cannot afford to do so and may even expect the contractor to begin work before final approval is obtained.

Private developers generally pre-sell units under one of two alternative approaches. Under the reservation approach, deposits of 25% are taken from the purchaser. In principal, this money can be used to build the house, but in practice they are not allowed to use the money, as the bank requires it to be on deposit as a guarantee of completion, in cases where there is a construction loan.

The alternative approach is the staged purchase system, whereby purchasers select units from the plans and begin making payments in stages like construction progress payments. This approach to private development is limited to purchasers who have sufficient savings to pay cash for their units.

At the present time, private sector developers are only building for the top end of the market. If they

are to serve a larger segment of the population other approaches and a variety of new skills will be required.

4. Building and Seismic Codes

Where special codes have not been prepared, Algeria has always used the applicable French building codes. In many cases these are not appropriate to the climatic conditions or the materials available. Nor were they appropriate for the seismic conditions which prevailed.

In 1973, the Commission Technique de Construction (CTC) began preparing reforms to certain sections of the French code to make them more suitable to conditions in Algeria. The first task was to draft provisions for seismic resistance construction. The initial work was done and a draft regulation prepared under a contract with Stanford University. This draft regulation was completed in 1975 and officially adopted in 1981. It is currently in use, although the regulation itself was drafted on the model of U.S. codes and is consequently difficult to use and in some cases not relevant to construction practices in Algeria. It is currently being revised so it can be integrated into the French building code which it was intended to modify.

After the Asnam earthquake in 1985, standards were revised upward to require buildings to resist earthquakes of point 6 on the Richter scale. At the present time both the old regulations and the new ones are being used and many engineers are uncertain what is required.

In order to err on the side of safety, projects are being grossly over-designed, particularly small projects which are often designed by inexperienced engineers or people with little technical training. The result is a significant waste of reinforcing steel and cement, both of which are in short supply.

There is an urgent need to provide the technical offices, both public and private, with training in the design of seismic resistant structures which comply with the new regulations. Algeria does not currently need assistance in code revisions, but they could use assistance in alternative technologies for code compliance, such as light frame construction which might be possible using materials available in Algeria, and in training of design technicians. The Office of Disaster

Assistance of A.I.D. is a potential source of technical assistance and advice concerning U.S. expertise and experience which might be made available in this area.

CTC has also introduced modifications to the French code which are tailored to the climatic conditions of Algeria, particularly in the desert areas of the south. Despite the existence of a single national code in Algeria, not all sections or provisions apply to all sections of the country. For example the special regulations designed for desert climatic conditions apply only to desert areas and the seismic resistant structural requirements apply only to earthquake prone areas. They do not apply to the south.

The task of designing projects to comply with the building codes is handled by design offices "Bureau Technique". Both public sector and private sector design offices exist which provide architectural and engineering design services. The task of reviewing plans for code compliance in theory rests with the local authorities, but in practice is handled by the Regional Offices of the Ministry of Housing.

Current building codes do not preclude self-help or progressive house construction, but the development of typical house plans which include seismic resistant structural design considerations might be helpful in reducing the costs of individual house contractors. This might be accomplished as part of an expanded training and technical assistance program organized by CNAT, in cooperation with CTC.

5. Construction Costs

Due to low productivity in the construction industry, the lack of alternative housing types and construction systems in use, as well as the rigid standards regarding the size of units built and their equipment, the average cost of building public housing in 1987 was about AD 3000/m². This translates into an average unit cost of AD 190,000. A 70m² unit at this price would cost AD 210,000, but this figure does not include land costs, construction loan interest, the costs of preparing architectural and engineering plans or the cost of operating the public housing agencies which develop the projects. This cost reflects only the labor (30%), and materials (70%), which went into the actual construction, whether it was contracted to a private construction company or to a public sector one. In its report on the Local Government Sector, the World Bank

concluded that the performance of the Algerian construction industry is generally poor, with production kept low by inadequate management and irregular supply of construction materials and equipment.

6. Construction Materials

Algeria has a relatively narrow range of natural resources from which construction materials could be produced, not unlike those available in other countries in the region: clay deposits suitable for making bricks and hollow tiles; other clays suitable for ceramic fixtures and tiles; gypsum, the basic ingredient in cement and plaster; and bauxite, the ore used for aluminum production.

While the raw materials exist, exploitation has been limited by the size of the domestic market and the level of investment required, or the lack of some essential material or condition necessary for economic production. Currently Algeria produces cement, aggregate for concrete, plaster, ceramic tile, sanitary fixtures, clay tiles and brick, primarily from locally available raw materials, although the quantities of all these products is much lower than the current level of demand.

The shortage of construction materials, particularly of cement, and a few other basic materials is one of the primary constraints to expansion of the construction industry. In addition to production from local raw materials, Algerian companies manufacture a number of products using imported raw materials. For example, production of aluminum would not be economically feasible, but window frames can be made locally from imported aluminum sections. Timber production is not feasible, but wood window frames, shutters and doors are being made from imported timber, and structural steel studs, roof gutters and downspouts, flashing and other items are being fabricated locally from imported sheets of galvanized steel. Some essential construction materials such as wood, asphalt, glass, steel reinforcing rods, and electrical switches and plugs are all imported.

As a result of limited local production of construction materials, the import component of Algeria's construction industry is quite high, roughly 30% at the present time, although the percentage would be much higher if the existing shortfall between demand and supply were to be met by increasing imports.

Import concessions for critical materials such as cement, structural steel and steel reinforcing rods are granted to specialized state corporations. The present law does not allow private importation of material for sale, although import for one's own use is theoretically possible. The actual level of imports of each material and the quotas of total stock, whether locally produced or imported, which are to be allocated to public and private sector projects is determined in a national plan prepared each year by a commission on which the Chamber of Commerce sits as the private sector representative. Due to competing demands for use of the limited foreign currency available each year, the allocations for importation of construction materials has not been sufficient to meet the demand, thus a situation of perpetual shortages exists in the construction industry. (See table 1 below):

Table 1
Construction Material Provided as a Percentage of Demand

<u>Product</u>	<u>1983</u>	<u>1984</u>	<u>1985</u>	<u>1986</u>	<u>1987</u>	<u>1988</u>
Aggregate (for concrete)	68	70	74	75	76	81
Cement	78	73	68	72	71	66
Steel (mostly reinforcing rods)	72	77	78	73	44	41
Wood	74	76	59	55	30	36
Gypsum (plaster)	76	85	80	78	73	81
Clay products (brick and tile)	50	45	53	52	57	54
Ceramic tile	59	65	69	70	70	73
Water proofing, sealants	57	83	56	62	61	52
Plumbing fixtures	59	64	60	65	57	51
Heating and Air Conditioning Equipment	56	52	56	52	48	44
Paints and Varnishes	75	66	75	71	73	74
Glass (window glazing)	73	76	59	55	30	36
Hardware	58	61	59	58	51	52
Tools	52	51	53	54	47	47

Source: "Analyses De La Conjuncture Economique Dans Le Secteur De La Construction Durant La Periode 1983 à 1988" Centre National D'Animation des Entreprises et de Traitement des Informations du Secteur de la Construction, December, 1988 page 7.

In a market driven economy when demand exceeds supply prices would normally rise. In Algeria, the prices of all materials produced by state enterprises are set by a regulating commission, presumably on the basis of production costs or the cost of importing the commodity, but the official price does not consider market demands. In such situations, the emergence of a black market for scarce commodities is unavoidable and indeed the black market in construction materials such as cement, is quite active in Algeria. Ready mix concrete sells at AD 3900/10,000 kilo, through the official distribution system while 25 kilo bags of cement are sold at AD100 on the black market, an equivalent of ten times the official price.

Abuses of the allocation system provide the supply of material sold on the black market. It is not unusual for an individual who is building a house to get certification for 100 bags of cement, sell 60 on the black market and use the other 40 to build a smaller house than was shown on his approved drawings-from which the allocations are made.

While reforms in the allocation system might help to diminish the supply, until overall production is increased, or government control over production, importation, pricing and distribution is eliminated, the dual market will continue to exist.

7. Allocation of Construction Materials

The allocation of building materials needed for construction is a serious bottleneck in the present construction system. It affects all aspects of the construction industry causing inordinate delays in production and/or substantial increases in costs. Materials are allocated to contractors by the Societé Matériel National de Construction based on certification by the project architect as to the quantities of materials required. The contractor files 7 copies of the plans along with the certification of materials and obtains certificates specifying a monthly allocation of materials. The allocations do, in fact, total the amount of cement and other materials needed to complete the project, but they may be spread over a period as long as three years, whereas the cement, for example, will all be needed within a period of several weeks if normal construction practices are to be followed. As a result, most of the energies of Algerian contractors

today must be spent in the process of obtaining materials needed to build, rather than on organizing and managing a normal production schedule.

The material allocation process does not appear to favor public construction companies over private ones, but there are separate allocations for private and public financed projects. It seems that, generally speaking, all participants are treated equally in terms of access to the scarce materials. Thus the changes required are in the actual production or importation of material.

8. Centre National d'Animation des Entreprises et de Traitement des Informations du Secteur de la Construction (Construction Industry Association), C.N.A.T.

CNAT is an independent organization created in 1974 to monitor and serve the construction sector. It operates under the direction of MATUC, but is independently funded by a tax of 2% which is levied directly on the gross receipts of all public and private sector contractors in the construction industry. Its mission is to assist construction companies to carry out their work; to collect, analyse and disseminate information related to construction; provide basic skills training and professional education courses for workers of various levels in the industry; to assure that data on construction costs are available to cost estimators working in the design offices and the construction companies; to facilitate coordination among companies; to assist when asked with contractual arrangements; and to develop and present information on the sector in a manner so as to assist the GOA with policy formulation related to the sector.

CNAT provides direct assistance to contractors through its network of regional and provincial offices. Regional offices are located in Algeria's, Oran and Constantine, and there is a CNAT office in all 48 provinces. These offices offer the following types of assistance: trouble shooting or analysis of a company's problems; general organization or organization by functions; setting up a management system; projecting construction budgets and cost control; organizing a training program, and data processing. CNAT also prepares and distributes materials intended to improve management skills and assists companies to increase their efficiency.

The data collection aspect of CNAT's work is handled by 30 statisticians situated in the data collection center in Algeria's and in 12 sub-centers which are located in offices of major private contractors and public agencies throughout the country. The data center collects statistics on construction work being planned and that which is in progress, on materials used, labor actually employed and on costs. Quarterly reports are published which facilitate construction cost estimating and planning for future needs of the industry.

The CNAT training center in Algeria's offers several diploma courses and provides the certification required of those who wish to enter the industry. Three year programs are offered for architectural designers, reinforced concrete designers, survey technicians, and public works technicians. Two year programs are offered for accountants and cost estimators. There is also a program for training construction site supervisors and others involved in the production aspects of the industry. CNAT also organizes professional education seminars all over the country on many aspects of interest to the construction industry. The diploma courses may be pursued in night classes or on a part-time basis during regular work hours. Most diploma course participants work full time in the industry while pursuing their diploma. CNAT has awarded more than 6,000 diplomas since the program began in 1980. There are presently about 3,000 individuals enrolled in a diploma program.

C. Relationship of the Government Planning Process to the Private Sector

1. Urban Planning Process, Norms and Standards

In Algeria, economic planning and physical planning are organized in parallel systems with the latter intended as one of several tools for implementing the former. The system begins at the national level with the five year Economic Plan. At the provincial level each Wilaya (governor) is responsible for preparing a Development Plan (P.D.W.) and at the municipal level each municipality (commune) prepares a Development Plan (P.C.D.) which are the instruments for implementing the National Economic Plan. These plans are submitted annually to the central government for approval and financing. The P.C.D. is in effect an instrument for establishing a local government investment strategy aimed at achieving its developmental objectives. It is

the most logical point of intervention when introducing new policies aimed at stimulating a greater role for the private sector in urban land development and housing.

The parallel system for physical planning consists of a national territorial management scheme (S.N.A.T.) and regional territorial management schemes (S.R.A.T.). At the provincial level there is the Wilaya Land Management Plan (P.A.W.) and at the municipal level two separate instruments, the Urban Development Plan (P.U.D.) and the Provisional Urbanization Perimeter (P.U.P.), the latter being required as an interim measure until the long and complicated process of preparing and approving the former is complete. The national and regional level physical plans, SNAT and SRAT, are new measures intended to rationalize the use of national resources and support overall macroeconomic objectives. They are not yet operational and have no direct links to physical planning at the local government level.

The PUD is a master plan which includes specific zoning of all land and designates easements for infrastructure and public services. It is associated with the Commune (economic) Development Plan (P.C.D.) and has binding powers on land use. Once a PUD is prepared it must be submitted to the province (Wilaya) for review and coordination with the provincial level plan, the (PAW) and to the Ministry of Housing, Urban Development and Construction (MATUC).

The PUP is conceived as a temporary instrument to be used while the PUD is being prepared. Basically what the PUP's do is provide the Communes with monopoly powers over land transactions within the urban boundary, as defined by the PUP. Some PUP's have been prepared on the basis of land use studies, but none include legally-sanctioned zoning, thus the perceived need for monopoly control over land transactions. It's a right which need not necessarily be exercised, e.g., the commune does not have to buy land and re-sell it to maintain control over land use during this period prior to approval of a PUD, but it does have the right to do so. PUP's only require approval by the provincial governor (Wali).

Despite a doubling of the number of municipalities since 1984, more than 80%, (1238 of a total of 1541 municipalities) currently have either a PUD (150) or a PUP (1088) approved. These were prepared with assistance from MATUC or local urban planning agencies,

generally at the provincial government level. The PUD establishes the broad framework for urban development and may include the norms and standards which will be applied at the more detailed planning stages which follow.

There are no official national standards governing land planning, public facilities or urban infrastructure. In many cases, standards used are those set by the utility company or technical agency responsible for the service.

In January 1989, MATUC published a report entitled 'Grille Théorique des Equipements' to serve as a guide in preparing PUD's for municipalities in four categories, classified according to size; those with less than 25,000 inhabitants; 25,000 to 50,000 inhabitants; 50,000 to 150,000 inhabitants and 150,000 to 250,000 inhabitants. Cities larger than 250,000 inhabitants were not included. While the report does not directly recommend norms and standards, in the absence of another intervention, the assumptions used in this study may well become the norms and standards adopted in most of the PUD's still being prepared. For this reason, the assumptions should be carefully evaluated. They are: 7.35 persons per household; 22% of the population is employed; the ratio of land use for housing to other uses varies by size of town and is given as a relationship between net density and gross density. For comparative purposes the assumptions used for residential land use densities are cited. They are stated in dwelling units per hectare of gross land area as follows: for towns smaller than 25,000- 12 du/ha.; for 25,000 to 50,000- 14.9 du/ha.; for 50,000 to 150,000- 16.5 du/ha.; and for towns of 150,000 to 250,000- 17.9 du/ha. For public facilities it is assumed that the aggregate should not exceed 4% of the total land area. For commercial uses, 66 employees per hectare has been assumed for areas of 3-5 hectares with building areas of 150-200 m²/employee. For roads, a formula has been used which relates road reserves to other land uses. Housing areas of less than 400 inhabitants are considered to include roads, for larger areas, depending on housing types, the allowance is from 5 to 35m²/dwelling unit. The general assumption used is that the actual road surface should not exceed 50% of the land reserve. For infrastructure easements other than transportation, a ratio of 3.5 m²/dwelling unit was assumed. For parks and open space, reserves of 10 to 15 m²/ person are assumed. The minimum is applied in the larger towns and increased progressively for the smaller

ones, thus providing land reserves intended for future urban growth.

While some of these assumptions seem quite reasonable and appropriate for the present level of development and future growth requirements in Algeria, others seem higher than necessary. If, for example, the residential densities assumed in this report were to be established in PUD's as the maximum land use densities allowed, the task of producing affordable housing for lower income groups would be more difficult than it need be.

For the purpose of comparison with net densities of 60 du/ha. used in HG projects in Morocco and elsewhere in the region, the highest ratio cited in the report, of 17.9 du/ha. of gross land areas in cities of 150,000 to 250,000 population translates to 49 du/ha. of net residential land while the lowest density of 12 du/ha. of gross land area in towns of less than 25,000 inhabitants translates to 38 du/ha. of net residential land. Densities such as these may be acceptable as targets or even as averages; they should not become maximum allowable densities.

Technical assistance to the offices presently engaged in preparing PUD's could be an effective means of lessening the problems associated with unrealistic and unaffordable planning standards which inhibit development of housing for lower income families.

After more than a year of study of the Local Government Sector in Algeria, the World Bank concluded in its report No. 7465-AL, dated March 15, 1989, that Algeria has a well-developed physical planning system, but that problems are present both in terms of the nature of the planning tools and the way they are used. In the first place, the preparation and approval procedure for master plans is so complex that they are often obsolete by the time they are enacted. Secondly, the detailed land development tools (ZHUN, ZI, ZR and Lotissement) are not always well-coordinated with PUD's. Finally, and most importantly, physical planning is used in a rigid and bureaucratic fashion, as an instrument for constraining "undesired" forms of land development, rather than as a mechanism for coordinating land development actions of different governmental institutions and private individuals. Solving this problem requires extensive training of local government officials, simplification of existing urban planning processes and regulations,

and the establishment of effective procedures for inter-agency information and consultation.

2. Land Development

The actual implementation of urban planning schemes is carried out, at least for large scale developments, using a variety of planning instruments which are available to assist with detailed land management and control. They include: the Zone d'Habitat Urbain Nouvelles (ZHUN), and subdivision plans (Lotissements) for new housing area development, Zone Industrial (ZI) for new industrial development and Zone de Rénovation (ZR) for urban rehabilitation.

The ZHUN, initiated in 1975, is a procedure which can be used for any project over 400 units and is required for projects over 1,000 units. The ZHUN is a special district developed under the authority of the municipality or the Ministry. To date, ZHUN's have been generally developed by public housing agencies. With recent reforms, it is expected that up to 50% of the land in a ZHUN will be allocated to private developers for production of units to be sold on the market. The agency responsible for the ZHUN would remain responsible for servicing the land on behalf of the local authority or assume the responsibility of coordinating the work of the agencies involved. All utility companies must review and approve a ZHUN on the basis of compliance with their own program of infrastructure investment. The private developer in this case would only be concerned with the construction and sale of the housing units themselves.

The subdivision plan (Lotissement) is a similar vehicle, but normally used for smaller projects. Private developers as well as public housing agencies make use of the subdivision plans to obtain permission to develop land. Permission is granted by the municipality. The authority to sign the approval rests with the president of the local assembly who grants or rejects the application on the basis of the recommendation of the local technical office of Centre d'Etude National d'Aménagement Rural et Urbanisme (CENARU). Before approval, each project must be reviewed either at the provincial or national level.

The review and approval of the provincial governor (wali) is required when a subdivision:

- Is for residential use and is less than 25 hectares.

- Is for uses other than residential and is less than 200 hectares.

The review and approval of the Ministry of Housing is required when the subdivision:

- Is residential and larger than 25 hectares.
- Is for other uses and larger than 200 hectares.
- Crosses jurisdictions.

A subdivision may be rejected which:

- Endangers public safety or disturbs a protected natural area.
- Exceeds the capacity of the available or projected infrastructure, including water supply.
- Does not conform with the approved urban plans (PUD).

Permission to subdivide carries an obligation to see that services are provided including roads, water lines, sewer lines, street lighting, parking areas, open space for parks and public facilities and for telephone lines. Services may be installed in phases, but lots may not be sold until the house is built and services are installed. In granting a subdivision permit, the authority may require:

- The developer to deed, without charge, certain sites designated for public facilities.
- The developer to pay for part of the expense of building public facilities required to serve the area.
- Elimination or modification of specifications not conforming with the overall character of the subdivision.
- Creation of an organization (usually a coop), responsible for common concerns during the house consolidation period.

Granting permission to subdivide does not obligate the municipality to provide services to the site, but permission is not granted unless the services are available or anticipated within the time frame of the proposed project. It is not unusual for the review and approval process for subdivisions to require two years. Often this delay is in order to coordinate the schedule of infrastructure investment among the various agencies responsible.

It is, in fact, the servicing of land rather than the sale of or subdivision of land which is the primary constraint in housing development. A review of the planned versus the actual production of serviced land and housing units under ZHUN's between 1985 and 1987

reveals that actual completion of infrastructure works was only 10% of the planned output, while actual housing construction proceeded at a more rapid pace, leaving many units to sit for years waiting for land servicing to be completed. A similar situation exists in the smaller Lotissement where completion levels in 1986 averaged only 12% of the land servicing targets. Unrealistic targets may be partially responsible, but demand continues to rise and exceeds the present capacity of local agencies to deliver the services required. Other alternatives should be explored. One alternative is to contract with private developers to provide infrastructure services, another is to subdivide and sell planned, but unserviced land which is then serviced incrementally over time.

Under the present laws, only the municipality can create a subdivision and sell unserviced lots to individuals to build their own houses. While municipalities do create subdivisions and sell serviced lots to family groups and cooperatives, they do not (except by default) sell unserviced lots, nor do they provide an adequate supply of lots to meet the demand. As a result, illegal (and unplanned) development has grown up at the urban fringes and in many rural areas as well. A recent MATUC survey estimates the number of illegal housing units at 700,000 to 800,000, half of which are located in unplanned shanty town areas.

3. Contracting and Permit Approval Procedures

Most public housing construction work today is done by private contractors who are awarded contracts on a competitive bid basis. The bidding is generally done once architectural plans are complete, but the structural drawings are often not part of the bid package due to the length of time required to produce them. This requires the contractor to make assumptions about the design standards to be used. When the actual design exceeds these assumed standards, serious financial problems can occur leading to defaults, lengthy delays and perhaps rebidding of the work.

Ordinance No. 75-67 of September, 1975, Permits de Construire states that building permits are not required in towns of less than 7,000 inhabitants, most other situations require permits. Certain types of construction require special approval and are exempt from the normal permit process. They are:

1. Military, other than civil works or housing, which must be approved by the Defense Minister using norms and standards set by MATUC;
2. Restorations and repair of public buildings, national palaces and historic monuments which must be approved by the designated authority;
3. Underground constructions related to transport, utilities or mining which are authorized by the responsible agency;
4. University and college facilities which must be approved by the Ministry of Education.

For all other construction, permits are to be issued by the president of the popular assembly of the community in which the construction is to be completed.

For a few special types of construction, approval of the provincial governor, the wali, is required.

For large projects approval of the MATUC is required:

1. Those with more than 500 housing units,
2. All projects "construction groupee", which are not exclusively residential and all projects which:
 - a) exceed a total floor area of 10,000m²,
 - b) employ more than 200 people; or,
 - c) occupy a land area greater than 4 hectares.

The maximum review period is specified in the law as 45 days for decisions before the president of the assembly and 2 months for decisions before the Ministry or wali or requiring consultation outside MATUC. The caveat is that the applicant's file must be complete, any missing document resets the clock.

In theory, local authorities are responsible for reviewing permit applications and inspecting work during construction, but few jurisdictions have the technical staff to carry out the responsibility directly. The review task is generally performed on behalf of the local authority or the province by the Division of Infrastructure of each province. The Committee Technique de Construction (CTC) under MATUC also has an important role in maintaining code compliance in Algeria.

In 1986, CTC was reorganized into 5 regional offices supported by a permanent technical control commission which coordinates the five offices, reviews and approves regulations and launches pilot projects. The five

regional offices are the technical agencies responsible for review and approval of construction permit applications which require MATUC approval, or are referred to them by the local authority or the province.

In addition, CTC has a Seismic Center responsible for research, revision of codes and compliance, as well as two specialized offices, one to control Public Works projects and another to control Hydrologic Works. While CTC reviews plans submitted to them to assure compliance with the code, they do not provide technical assistance or advisory services. Inspection of project sites is also within the purview of CTC but they do not regularly visit construction sites nor do they have the authority to stop construction. They may, however, withdraw their certification of the project's compliance, should they find during a site inspection that the work is not being done in compliance with the approved drawings or in accordance with generally accepted practices. In a case where CTC withdraws its certification, notice is given to the responsible local authority or provincial office who has the authority to stop the works. Permits are valid for two years from date of issuance.

While the permit process itself has not changed since the 1975 law, which includes a reasonable time schedule for review of applications, the consequences of delays becomes much more critical when the applicant is a private developer who must pay the full costs associated with any delays and reflect them in the sales price of the units if he is to remain in business. Actual experience suggests that the permit review process varies substantially from jurisdiction to jurisdiction, but in general it seems to take six months or more to receive approval.

With the increased volume of applications which can be reasonably anticipated under the reform act, the permit review process is likely to become a serious bottleneck, unless administrative measures are instituted to alleviate the situation. For small projects, especially individual houses, the owner often waits until the building is completed before applying for approval, thus avoiding the delays of permit reviews. This works for houses built on a cash basis, but bank financing requires approved plans before they will provide a construction loan.

Once a permit is issued, the contractor can begin construction if he has been able to stockpile a

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sufficient quantity of materials to allow reasonable progress. If he has been able to do this, completion of an individual house requires no more than three or four months, a small apartment building six or eight months. Without the stockpile of materials, the construction process, even of a small house, could take several years. The alternative is to purchase materials on the black market, but this has serious cost consequences.

D. Conclusions and Recommendations

1. Accelerate preparation of PUD's which establish zoning of land in municipalities to reduce perceived need for municipal monopoly of land transactions.
2. Simplify economic, physical and development plan preparation and approval process.
3. Re-evaluate standards, indirectly established by 'Grille Théorique des Equipements', to avoid undue and unnecessary over regulation of development which would inhibit all development and particularly the production of low cost housing. For example, densities cited in the report should be defined as targets or even averages, to avoid the tendency for successive levels of the bureaucracy to interpret 'target' densities as the maximum allowed and other standards as the minimum allowed, rather than the desired end objective.
4. Due to lack of coordination between administrative levels and utilities companies, it is not uncommon that housing is constructed, but cannot be occupied due to lack of infrastructure services. Contracting with private developers to provide infrastructure services or to sell unserviced land are options worth exploring.
5. As a result, unserviced plots have sprouted in both urban and rural areas. A recent MATUC survey estimates the number of illegal houses at 700-800,000 units.
6. The training programs and information services at CNAT provide an appropriate vehicle for delivering technical assistance to private contractors interested in exploring new construction techniques to service a broader income market.
7. Algeria does not currently need assistance in code revisions, but they could use assistance in alternative technologies for code compliance and in training design

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technicians. A.I.D.'s Office of Disaster Assistance is a potential source of technical assistance and advice.

8. Current building codes do not preclude self-help or progressive housing.
9. The shortage of construction materials, both locally produced and particularly imported materials, is a major constraint to expansion of the construction industry with the import component 30% in 1989. Present law does not allow private importation of construction materials for sale.

II. ENVIRONMENTAL MANAGEMENT AND PROTECTION

In 1988, the responsibility for environmental management and protection was transferred from the Ministry of Hydraulics to the Ministry of Interior (MOI). Since MOI has the responsibility for supervising and coordinating local government activities, this decision has the positive effect of establishing linkages between environmental policy at the central government level and management decisions which affect the environment at the local level. MOI now has the task of defining appropriate organizational structures and financial mechanisms to ensure policy implementation.

The priority areas identified by the GOA for environmental programs include: 1) arresting encroachment onto irrigable or irrigated land by decertification, industry and urbanization; 2) controlling unacceptable levels of pollution in coastal areas, rivers and aquifers, and addressing deterioration of waste-water treatment facilities; 3) regulating the use of water resources subject to increasing competition between human consumption, irrigation, and industrial use; 4) lowering air pollution due to industrial emissions or incineration of domestic waste in municipalities; 5) making inventories of local environmental resources and defining appropriate management and exploitation programs. The spatial dimension of these problems make them essential components of regional and municipal development programs.

The GOA action plan for protection of the environment foresees the following short-term actions:

1. construction of a controlled dumping site in all urban areas with more than 15,000 people (164 sites);
2. construction of waste-water treatment plants in cities with more than 50,000 people (35 plants);
3. completion of 11 waste-water stations;
4. rehabilitation of 33 defective waste-water treatment plants;
5. construction of 12 regional controlled dumping sites for industrial waste;
6. rehabilitation and improved performance of 4 port reception facilities (Arzew, Algeria's, Bejara, Skikda); and
7. clean-up of 200 beaches and organization and management of a beach cleaning maintenance system.

In response to this new GOA initiative the World Bank has proposed an Environmental Management Project which would support the organization of environmental protection and management

functions at the local level as well as sponsor the implementation of essential investment projects. The project is proposed as a pilot operation in three or four provinces selected to illustrate a variety of environmental conditions and concerns.

The GOA has indicated that halting encroachment onto irrigable or irrigated land is one of its highest environmental management priorities. The proper mechanisms for accomplishing this objective with respect to urban growth is the PUD preparation process and the planning of ZHUN's and Lotissement. Technical assistance should be provided on a priority basis to train the design professionals who are currently engaged in preparing municipal development plans (PUD's) in more than 1,000 communities. The norms and standards set in these PUD's will have a major impact on the amount of land required to meet the projected growth of the urban population as well as the types of land (non irrigable or irrigated) which will be developed versus those which should be reserved.

Physical planning norms and standards are also important elements in controlling water usage and in projecting the water needs for human consumption. For planning purposes, the norms used vary from 100 to 200 liters per person per day, the lower figure being used in areas where water conservation measures are applied, particularly smaller towns and communities not served by water borne sewage systems. The upper level approaches that of European cities and is used only in certain affluent communities in the largest cities.

The GOA presently gives a high priority to water supply and sewage, particularly in the large urban areas. Table 1 below shows that the level of investment has more than doubled in the three latest multi-year government plans.

Table 1 - Investment in Water Supply and Sanitation

<u>PLAN PERIOD</u>	<u>INVESTMENT (In billions)</u>		<u>PER CAPITA</u>
	<u>AD</u>	<u>US\$</u>	<u>ADUS\$</u>
1974-77	4.0	0.8	240 48
1980-84	6.0	1.2	300 60
1985-89	10.3	2.2	476102

Algeria does not have a shortage of water resources, but the resources are unevenly distributed with respect to the centers of high usage and, until recently, development of the resources lagged behind demand, particularly in the largest urban centers.

The water supply systems that were built in Algeria's, Oran and Constantine in the 1950's had not been expanded until the late 1970's when severe water shortages were experienced in these areas.

In 1978, the World Bank made an \$82 million loan to finance the Sewage Works in Algeria's and feasibility studies of water supply and sewerage in Oran and Constantine. These efforts led to a new water supply works for Algeria's and the surrounding area, estimated to cost \$770 million. In 1984 the World Bank approved a loan for \$290 million to partially finance this project which was completed in 1988. A similar program was developed for water supply and sewerage facilities for Oran and Constantine. The total project cost was \$571.7 million with a foreign exchange component of \$312.8 million. In 1985, the World Bank approved a loan of \$262 million to assist in financing this work. Experience with these three major programs which are either completed or are near completion, has led the GOA to set up similar water authorities in the rest of the country to plan for and develop water supply and sewerage treatment facilities in accordance with projected needs. The World Bank continues to support the GOA's proposed development plan and investment program in this area. For example, a \$250 million World Bank loan has been approved this year to finance direct foreign currency expenditures which are part of a water supply project estimated to cost \$630.5 million. The project involves construction of two dams which will be turned over to regional companies when completed. As the regional companies are required to finance their investment through long term borrowing and to eventually operate on a self-financing basis, they will be required to reimburse the GOA the equivalent of the World Bank Loan.

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III. THE PUBLIC SECTOR

1. Background

At the time of independence in 1962, the Algerian government confiscated all property abandoned by departing French, retained ownership and rented out the housing stock. Since that date, almost all new housing construction has been monopolized by the government, so that by 1984, close to one third of all housing was government-owned rental property. This figure was considerably higher in urban areas, where half the dwelling units were in public ownership. In spite of a considerable increase in the housing stock, from less than 2 million units at Independence to 3.25 million at the present time, the public sector, operating alone, could not keep up with the rapid population growth and the urbanization process.

Over the years, this rental stock has become progressively overcrowded and badly maintained. The policy of the government has been to highly subsidize housing costs, which meant that rents were kept low and barely covered maintenance and service costs. In general, the rent equals only one tenth of the estimated market value of the apartment. On average, households have paid only 5-15% of their income towards housing, and many of the poor live rent free. Because rent increases have not materialized, the cost of collection is, in many cases, more than the rent paid.

2. Targeting of Subsidies

In the past, access to governmental rental units was not strictly related to income, and a large percent of units were set aside for use by government officials, regardless of income. Because of the severe housing shortage, the pressure on the government controlled housing market became intense, and led to a black market economy in housing. Since it was impossible to evict an existing tenant, regardless of his income or other housing possibilities, a parallel market in public housing units developed. The tenant of a government-owned dwelling unit, who lived almost rent free, would cede his lease in favor of someone else. For this, "key money", equivalent to the purchase price of the unit, was given to the tenant. This money served as the basis for constructing a private house. Leases were passed along from father to son, and sublets were

forbidden, no one other than the legitimate tenant could claim it, further blocking the normal functioning of the market and resulting in a substantial number of vacant units which were held for speculation.

The crisis in the housing sector became apparent in the early part of this decade and prompted the government to begin to abandon its quasi-monopolistic role in housing provision and to mark out a limited role for itself in this sector: provision of shelter to the low income groups, rather than indiscriminate across-the-board subsidies. Substantial progress has occurred in recent years towards the realization of this aim.

3. Institutional Responsibility

The Ministry of Housing, Urban Development and Construction (MATUC) defines overall goals in housing production, both public and private, for the purpose of coordinating planning, and allocating resources and foreign currency for the five year plans, but there is no distinction made between public housing construction and private for overall national planning purposes.

Two institutions, which operate at the level of the Wilaya (Province) are directly concerned with the production of Government housing. These are the Office de Promotion et Gestion Immobilière, or OPGI, which develops and manages public social housing (logement social) including both the old remaining stock and newly constructed units, and the Entreprises de Promotion du Logement Familial or EPFL which develops low cost sales units. The municipalities and the Wilaya together have responsibility for the planning and carrying out of government housing, but the work is generally sub-contracted to public enterprise firms. Private planning and architecture consultants and private construction firms may be used as well.

4. Sale of Public Housing Stock

Pre-1981 Housing

Because of the above-mentioned problems with the public sector housing stock, the GOA decided in 1981 to sell all the housing taken over from the French to existing tenants. The 1981 law was modified in 1986 (Loi sur la Promotion Immobilière), to include all government owned housing constructed before 1981. The law set two categories of housing, with two different sales prices

per square meter of floor area, which originally were conceived to correspond to construction cost, but which in fact are set at about 70% of total cost.

The sales prices, which were previously 1,200 dinars per square meter for pre-1974 units, and 1,400 dinars per square meter for post 1974 units, were recently raised 20% (in 1989) to 1,500 and 1,800 respectively. While sales were initially slow, after all, rent was almost free, the government has disposed of an impressive number of units.

1989 Disposition of Pre-1981 Government Owned Social Housing Units

Apartments sold	267,000
Applications pending	39,000
Apartments not designated for sale	<u>148,000</u>
TOTAL	454,000

This is partly due to easy payment terms. The payment terms offered are highly subsidized, with mortgages at 1% repayable over a period of 40 years. To further encourage sales, the government has lifted the five year restriction on resale.

The number already sold represents 58.8% of the total number of government-owned units built before 1981.

Post 1981 Housing

In May 1989, the government went a step farther towards withdrawing from the housing market and offered ownership to the tenants of 252,000 additional housing units constructed after 1981. Since May, 1989, 18,000 requests for purchase have been received, of which 13,000 have been approved, and the rest are being processed.

The sales prices for these dwelling units are pegged to the cost of construction at the given year, with a view towards paying off the debts. They vary from 2,110 dinars per square meter for 1981 units to 3,500 dinars for 1989 construction. Recent estimates put the cost of construction of a new unit of social housing at 3,500 to 4,000 dinars. The terms for purchase of these units are pegged to promote maximum sales and are subsidized as well; mortgages are offered at 2% over 25 years.

Ownership of Housing: Change in % 1938-1988

<u>Source Mission Year</u>	<u>World Bank</u>	<u>Census</u>	<u>Ministry and</u>
	83/84	87	88
Public	31.2%	24%	13%
Private	68.8%	76%	87%

As the above table demonstrates, these measures have led to a substantial reduction in government control of the housing stock, and confirm their stated ambition to drastically alter the state's intervention in home ownership.

Unsold Units

Of the pre-1981 units, there are a number of factors which explain why all the units have not yet been sold. First, it appears that in a large number of the pending cases there are disputes over who is the legal tenant, and thus the units cannot be disposed of until litigation is terminated. Given that many original tenants would have died, their inheritors would need to all agree on which survivor would have purchase rights. Other sales are pending because the units are occupied by people who paid key money, but are not the legal tenant and cannot find a way to prove their right to buy the unit.

Second, some undetermined number have been retained for use by state employees as rental units; most other pre-1981 units are in severely dilapidated condition.

However, the government does not expect any difficulty in disposing of post 1981 units over the long term, but recognizes that this will happen only when rents are raised to make purchase more favorable than rental (see below).

Units which the authorities have designated as dangerous or unhealthy will not be sold in their present condition. The issue of how to deal with the renovation of these units to ensure eventual sale must be tackled by the Ministry of Housing.

Rents

Critical to the GOA objective to sell its housing stock is the issue of rent levels. The government clearly recognized that until rents were raised, it was not in a tenant's interest to finance a mortgage.

In March and June of 1989, the government instigated three very important modifications. First, the Executive Decree of March 21, 1989 substantially changes the criteria used for eligibility for public housing; reserving access to low income households by setting the highest priority to those earning less than twice the minimum wage, or a total of 3000 dinars per month. Although other criteria are taken into account, such as condition of current lodgings, amount of savings, and number of family members, the most important criterion is monthly income. Consequently, new public housing will theoretically be targeted for below median income families.

Second, this same law solidifies the government's intent to encourage individual ownership of public housing so that only the lowest income households would be in need of (subsidized) rental units. To this end, all those eligible for public housing units will have the immediate option of either renting or buying their unit.

The Executive Decree of June 20, 1989 revises upwards the rents on all existing and new dwelling units, and aims to abandon the policy of indiscriminate housing subsidies via universal low rents. Rents will be raised 100-117% in three stages over a period of five years, with the first stage, a 15-18% raise, to take effect in January, 1990. Subsequent increases will occur every two years. It is expected that with each tranche of rent adjustment, an effort will be made by those most affected by increases to purchase their dwelling, as rental rates gradually come in line with mortgage payments and the disincentives to own disappear.

Rental subsidies will be given to a targeted low income population corresponding to those who cannot afford to pay more than 15% of their monthly income (12% outside of the Algeria's region), and will take the form of a rental reduction. If the newly revised rent on a tenant's apartment comes to more than 15% of monthly income, the difference between the actual rent and rent for a "standard reference unit" will be made up by the

government. The standard reference unit used for calculating subsidies will be a 3 room 70 square meter unit (far larger than most units). However, if the low income tenant possesses a larger unit, he must pay the rent differential himself.

The coefficient currently under consideration for calculating revised rents, 4 dinars per square meter, would lead to a standard reference unit costing 280 dinars per month. All rents will be determined on the basis of the number of square meters multiplied by 4, multiplied by certain other coefficients relating to location, age and standards of the unit. It is expected that subsidies will apply to households earning under approximately 2000 dinars per month, which is well below the median monthly urban income of 3,700 dinars. For example, a household at the median income would not be eligible for any subsidy until their rent exceeded 555 dinars per month. An apartment of 80 square meters will initially cost at least 320 dinars, depending on the other coefficients, but this price will be revised every two years.

Clearly under the first tranche of rent revisions, only a limited number of tenants will qualify for rent subsidies since a 15-18% increase to the existing rates (200 to 400 dinars per month) would still be affordable to most households. However, as the income structure of current tenants is highly varied, over the five year period it should be possible to oblige more solvent households to pay more reasonable rents, while subsidizing only the needy. As noted above, the aim is to bring rental rates up to market rates which will mean in practice that many households will quickly find that their new rent is in excess of the mortgage payments necessary to buy the unit. (2% over 25 years). The average purchase cost of a public social housing unit is 100,000 dinars ; the monthly repayment amount is about 300 dinars, or 10% of monthly median income.

The government intends to continue to build public social housing despite the desire to sell off as much of the existing stock as possible. While this appears contradictory at first sight, there is a distinction to be made between the policies governing public housing of the past and that of the future. The sale of old units to existing tenants should continue, being the most expeditious way of resolving a very complicated problem of tenancy and a significant drain on government resources. As previously indicated, current government

ownership of public housing amounts to approximately 13% of the housing stock; sale of old units may be replaced by construction of new units, but the rules of the game will change and public social housing will be targeted far more carefully to the group most in need of assistance. It is the intention of the HG to use the current 13% government ownership of housing as a benchmark for evaluation, to insure that the GOA continues to limit its involvement in the rental market.

In summary, the recent decrees, when put into effect, will reserve public social housing to lower income families, and will subsidize the rents of only those who cannot afford to pay more than 15% of their income for rent. Furthermore, by increasing all rents to market rates, the government intends to induce the more solvent tenants to either purchase their unit or to pay full market rates.

5. Logement Promotionel

The second area in which the public sector intervenes is in the production of housing units for direct sale, called Logement Promotionel, which is undertaken by the Entreprises de Promotion du Logement Familial. The EPLF have become autonomous organizations who must negotiate directly with the municipalities (APC) and provincial authorities (Wilayas) to acquire land from the municipality at newly established prices, or buy land from the private sector. These agencies act as public development companies for low cost housing and will now have to include in their sales prices all costs which were formerly passed on to the state, such as administration, land, contracting, design, etc. They are expected to be self-supporting and must fix sales prices accordingly. EPLF housing is financed by CNEP loans, and individual purchasers are eligible for mortgages from the same institution at 6.5% over 25 years for savers and 9% for non-savers. (It should be noted that CNEP uses 30% of household revenue as the effort which can be made by a household in repaying its mortgage). The cost of an average unit (70m²) was AD 210,000 in 1987, and is AD 280,000 at current 1989 construction costs of 4,000 dinars per square meter.

6. Five Year Plan

The five year construction plan for housing is not yet finalized but initial hypotheses have been put forward for consideration. The construction program does not

make a distinction between private construction and public construction. The stated aim of the Plan is to coordinate investments for housing construction materials and related infrastructure needs.

Estimates of housing needs have been based on the aim of reducing the number of persons per unit from a current national figure of 7.7 to 7.2. Between 1989-1994, 617,000 new housing units are projected, (with no distinction made at this time between public and private sector). However, the avowed goal is to reverse the current proportions built by the public and the private sectors. In 1988, 98,900 units were actually constructed. The objective for 1989 is 90,000 (not counting unauthorized construction estimated to total 15,000-20,000 units yearly). Thus, with more activity in the private housing sector, the program may be realistic.

Projected Construction Program

1990	100,000
1991	110,000
1992	125,000
1993	135,000
1994	147,000

6. Conclusions and Recommendations

Over the past two years the Algerian Government has drastically reoriented its policy towards development and ownership of housing with a view towards retaining a far more restricted role for itself than in the past. The recent laws and decrees which have passed and those which are under discussion should formalize this tendency and regulate the administrative procedures for carrying out the policy at all levels of decision-making and administration. While the new policy has been clearly enunciated, it remains to develop the mechanisms to insure it is put into effect. To this end, the following recommendations are offered.

1. Actively pursue the current policy of sale of existing public rental housing; develop a plan for the disposition of unsold units, based on a detailed analysis of the reasons why various units have not been sold.

2. Raise rents at as fast a pace as is politically practicable so that at the end of five years public rental housing rates more closely reflect market rates.
3. Study household revenues and budgets to determine the amount and percent of household income which can be dedicated to housing. Use this information for future revisions of rents, of the target group for housing subsidies, and of the interest rates on housing mortgages to low income families.
4. Extend the program of targeted housing subsidies to low-income tenants of privately owned rental housing as a way of stimulating upgrading of substandard private housing.
5. Adjust sales prices of government sponsored units on a yearly basis to reflect real and total construction costs.
6. Maintain the number of public social housing units at the current level.

IV. LAND

1. Land Sales: Existing Situation

Algeria's land development system is characterized by municipal monopoly of land transactions and land development.

While land can be privately owned-80% of the land in urban areas is in private ownership-and can be built on by its owner, up until the present time it could not be the object of private transactions; only the municipal authorities have the right to buy land, to subdivide, and to develop it either by construction done by OPGI's or EPFL's, or by sale of lots to private individuals.

The law of 1986 made a modification to this regime, permitting the municipalities to sell land to private developers for the construction of up to 200 units of finished housing, but it appears that the red tape and delays were such that few private developers were interested.

While the law stipulates that land transactions between individuals is not allowed, the practice is quite different. "Sale" of land indeed takes place, not surprising in a society experiencing a housing crisis. The problem revolves around legal title and building permits.

The normal procedure for land titling is for a contract to be drawn up by a notary, who is a state employee. This contract serves as titling papers. The title is then registered, (enregistrement foncière) for the purposes of paying transfer taxes and subsequent property taxes. When an individual wants to construct a house, he must show clear title before he is given a building permit. According to the World Bank, however, in 1986, out of an estimated 60,000 building permit requests, 28,000 were refused due to lack of legal land title.

In order to get around these problems, a seller and buyer make a private contract (acte au sein privé), get the signatures legalized at the municipality, and the buyer begins to build his house illegally without a building permit (this is only possible when no mortgage is involved). Once the house is finished, he "regularizes" his situation with the authorities; he

requests a building permit, pays his fine for having constructed illegally, gets the permit ex post facto, and registers the property at the enregistrement foncière and pays transfer taxes. While the title is never really legal in the eyes of the municipality, the system works nonetheless.

The transfer tax varies according to the value of the property, from 6-10%. (It is possible to avoid paying this altogether if the sale involves a house and not land, by making a private agreement in which the "seller" allows the "buyer" to "use" his house and land.) Apart from the fact that private land sales are theoretically illegal, the price of land in the large cities is very high, which also severely hampers any private transactions. The official price of land, established by the state and uniform throughout the country, is 200 dinars per square meter (\$26.00). The current price for the above-described transactions in Algeria's is 1,500 dinars (\$197.00) per square meter, or 8 times the official price.

2. Land Availability

About 20% of urban land is owned by the government, who can acquire land for its needs through forced acquisition at state-set prices. The PUD determines which urban land can be used for housing. Presumably, the municipality first develops housing and subdivisions on land it already owns, which fall within the housing zones, before it thinks of acquiring more. There is no overall lack of land for public housing development, but the operations are generally on a huge scale, i.e. 100 hectare ZHUN's, so that it is becoming more difficult for some municipalities to find land on this scale within their purview. However, they always have the option of extending the urban limits, and expropriating private land. For smaller operations and subdivisions, there is no shortage of land zoned for housing.

3. Projected Changes in the Laws on Land (Loi sur l'immobilière)

A new law has already been proposed, which will be submitted in autumn 1989 to the Parliament. Its objective is to break the monopoly of the state in land transactions and land development. The most important changes which the new law will effect are outlined below.

- 3.1. Private land transactions may take place between two private parties.
- 3.2. Private developers will be able to buy land from the state for subdivision and resale, with no limitations on size. In addition, the developer may resell the subdivision plots without any house, for auto-construction.
- 3.3. Private developers may initiate the demand for a subdivision on government owned land. The purpose is to take the initiative away from the APC and give it to the developer.
- 3.4. The artificially low fixed price of land will be revised. There will not be one national land price; prices will be determined by market value.
- 3.5. Municipalities will have to pay market price for expropriated land, and will sell publicly developed land at market value (to private individuals, to developers or to EPFL'S).
- 3.6. In the case of private subdivisions, the developer must provide the infrastructure.
- 3.7. The free sale of land will be restricted in one of two ways which remains to be decided:
 - either the municipality will retain the right to expropriate land, but at market prices;
 - or the municipality will have a right of first purchase on all land sales. This "Droit de Préemption" means that all land sold privately must first be offered to the municipality and if it determines it needs this land, then it must buy it at that time, at the market price.
- 3.8. Notaries will no longer be state employees, and the profession will be exercised by private individuals who must pass exams and be licensed by the state, similar to an attorney.

4. Expected Results of the Legislative Changes

It is hoped that the new law will lead to a sharp increase in private housing construction. While this will undoubtedly be true in the case of self-help construction on individual plots once the illegality is

removed (and access to mortgages becomes possible), it is not clear whether the system will initially work well enough to encourage large scale private subdivisions, especially of inexpensive housing built for resale. There are other existing constraints in addition to the law; administrative red tape and regulations, bottlenecks in getting building permits, lack of construction materials and fluctuations in their price, all of which combined mean that a private developer will be taking great risks.

It is likely that there will be a transition period, where small subdivisions will be tried out. It is also likely that the initial efforts will be aimed at satisfying the middle and upper end of the market, with small buildings, and small subdivisions. Only when the pressure to acquire housing has eased for this group, will private developers turn to the lower income market as potential clientele, and only when private developers feel more reassured that buying and developing government land is worth the risk.

There is also great uncertainty about the future price of land. How will it change when the restrictions are lifted and an unknown quantity is suddenly put on the market? Will land owners sell, or will they wait for higher prices? What will be the government's role in setting land prices? These are all unknowns which will influence to what degree the private sector can establish itself as the major provider of housing in Algeria.

5. Social Soundness Analysis

- a. Urbanization Trends. The principal demographic trends are rapid population growth, regional concentration, and increasing urbanization. Algeria, located in northern Africa, is the second largest country in Africa (after Sudan) with a land mass covering 2,381,741 square kilometers. However, the Saharan area extends over more than 88% of the country's total land area. Consequently, approximately seven-eighths of Algeria's land is unsuitable for agricultural or urban development.

Population distribution mirrors the economic potential of the land. The Coastal Plains (4% of the land area) are home to approximately 68% of the total population, with an average density of over 170 people per square kilometer. This is also the region

where Algeria's major urban centers are located. The High Plains accommodate about 24% of the population, with an average density of 31 inhabitants per square kilometer, and the Saharan region is left with about 8% of the population with an average density of 0.9 people per square kilometer.

Although Algeria's population is heavily concentrated in the coastal area, its urban structure is relatively well balanced. Urbanization is occurring at a rate significantly higher than that of the general population growth. In particular, Algeria's average growth rate is 5.4%. In 1987, approximately 49% of the total population resided in urban areas; in 1962 it was only 25%.

Urban population is concentrated in and around the three largest metropolitan areas: Algeria's, Oran, and Constantine (4.2 million people, approximately 41% of the total urban population). It is notable that the primacy of the capital, Algeria's, is lower than that observed in most other African countries. The coastal region has several cities of relatively large size and national economic importance, and even the highlands have a network of medium-sized regional urban centers. To slow concentration in the major coastal cities, the Central Government promotes the regional development of smaller urban centers, notably in the highlands.

- b. Socio-economic Analysis. Algeria's infant mortality rate (77 per 1,000 live births) exceeds Tunisia and Jordan, but is lower than Morocco. The educational system is broad based at the primary and secondary levels but narrows rapidly at the university level. Literacy rates are lower than Jordan's, but exceed Morocco's and are comparable to Tunisia's. The principal religion is Islam; French and Arabic are the languages. Total population in 1988 was approximately 23.9 million (a doubling since Independence in 1962).

Average urban family or household size in 1988 was 6.77 persons. However, the average number of persons per urban housing unit was 7.33 in 1987, indicating significant overcrowding. In 1987 in Algeria's, the figures were 6.92 persons per household, but 7.61 persons per unit. Confirming this, according to the 1987 census, there were 3,054,292 occupied housing units in Algeria. The number of households totaled

3,283,409, indicating that some 229,117 households were sharing homes with other households.

Algeria's labor force is only 18.3% of the total population, reflecting an alarmingly young age structure and limited participation of women in the work force. As this young group comes of age, there will be strong and increasing pressure on the Government to generate employment and, as they marry, to produce acceptable housing.

Of the approximately 4.2 million working Algerians, 22% work in agriculture, 33% in industry (including construction) and 45% in services. About 58% of the jobs are provided by the public sector. Employment opportunities have not kept pace with population growth, especially since 1986. The unemployment rate in 1988 was 21.8%.

- c. Women in Development. Religious tradition, social norms, and socio-economic characteristics have all served to historically limit the economic and political participation of Algerian women. In 1988, only 7% of the labor force were women.

Of those women working, in 1985, 86% worked in public sector 'traditional' jobs such as teachers and nurses. Not surprisingly, only 2.5% of working women in 1985 were employers or self-employed. Of this 2.5%, the bulk of independent female income earners are in agriculture, followed by commerce and real estate, in descending order of importance. Interviews with some Algerian women indicate that times are changing. Women police officers and taxi drivers are now found and more recently the Government hired the first woman bus driver. The Government decided to retain women police officers and bus drivers, despite adverse public reaction.

Two socio-economic variables account in large part for the absence of women in the work force; their educational level and their marital status. In 1985, only 27% of the female labor force were married. In 1985, only 6.4% of working women had university training. However, random interviews with Algerian women revealed that they felt there was no discrimination in being accepted to universities and that a university education for women was valued by most Algerians.

With regard to credit for women, at least in the savings bank (CNEP), there appear to be no regulatory nor legal obstacles. Mortgages are granted on a non-discriminatory basis to women, women have equal rights and responsibilities as savers. Government rationed housing, although in short supply, is provided equally to heads of households, regardless of sex. Random conversations with Algerian women, as well as the Ministry of Housing, confirmed this perception.

The Algerian Constitution of February, 1989 upholds the concept, now included in the Uniform Labor Code, of equal pay for equal work. The Family Code, however, is based upon Muslim tenets which tend to identify the husband as the principal decision-maker.

In summary, for this particular program, given that there currently exist no discriminatory credit practices nor legal impediments and that women entrepreneurs may be aided by the expansion of the private real estate industry, the program should have an overall beneficial effect on women in development.

6. Political Analysis

Algeria was under French control until its independence in 1962. At that time a socialist government was put in place. In accordance with its socialist orientation, Algeria operates under a centralized government with a sole decision-making body: the National Liberation Front (FLN). Key posts in the National Cabinet and all other posts of political responsibility are held by members of the FLN, ensuring that the decision-making process remains structured into the Party's internal political process. This structure is largely responsible for a near absence of conflict among various levels of administration and a common set of economic and social development objectives nationwide.

There are three distinct administrative levels in Algeria: central government, provincial government (Wilayas), and municipal governments (Communes) with an elected Legislative Assembly at each level. Additionally, National and Local Public Enterprises (NPEs and LPEs) have operated as an extension of public administrations and have served to implement economic plans at all levels. Now, they will become economic entities on their own since recent legislation has granted them autonomy.

There are now 48 Wilayas and 1,541 municipalities. Provincial governments manage local administrative activities and coordinate activities of the central government (e.g., water authority). Thus the provincial governor plays a critical role in implementation of economic plans at the regional and local level.

Henceforth their operations will be subject to market forces and their growth and prosperity to financial results. For example, the choice of investment projects is the responsibility of sub-national authorities. The Five Year Plan defines the Country's overall objectives and targets. Local investment programs are implemented on the basis of annual development plans. Local Administrations (Wilayas) and municipalities (communes) either directly or on behalf of the State administer about 40 percent of the annual total investment expenditures made by the public sector, including public enterprises. Their operating budgets represent about one-fourth of the central government operating budget. Local Public Enterprises (LPE), under the guidance of the Local Administrations, have a combined annual output averaging 7 percent of GDP, and employ about 6.5 percent of the national labor force.

The Government traditionally has controlled foreign trade, dominates industry, distribution and retail outlets, public utilities, and banking and credit. This is, however, in the process of changing.

A week of serious rioting took place in Algeria's and other urban centers in October 1988, due to general and rising anger at a rapidly eroding standard of living. While the riots did not bring down the Government, they discredited its statist model and strengthened the hand of reformers in the GOA. A highpoint was the February, 1989 Constitution, which allows for multiple political parties and guarantees the right to private property for the first time.

VII. MEDIAN INCOME AND HOUSING TYPOLOGIES

- a. Median Income Calculations. The 1989 median urban income is estimated by A.I.D. to be 3,700 dinars per month per household. The median urban household income is derived in the following manner. The median individual base salary for 1989 is 2,300 dinars per month; there is no difference in pay scales between one part of the country and another. Although unsalaried workers represent 40% of the national work force, the large majority are located in rural areas. Thus it is reasonable to take the median salary as representative of a median base urban income.

There are four categories of bonuses which function as a percentage increase to the base salary. These are given for longevity at the same job, working variable shifts, working in noisy or dirty industries, and above standard productivity. However, only the first category of bonus, that of longevity, is applied across the board. It begins to accumulate after three years and increases with every three years of service up to a maximum of 35% of base salary. For purposes of calculating median individual income, it has been assumed that workers on average currently receive one half of the maximum bonus, 17.5%. This has been applied to the base salary; 2,300 dinars X 17.5% = 402 dinars.

The adjusted median individual base salary is consequently approximately 2,700 dinars.

In order to calculate the median urban household income, first the number of urban workers was calculated. In 1987 the urban workforce was 20.5% of the total urban population.

$$11,44,249 \times 20.51\% = 2,346,071 \text{ urban workers.}$$

The 1987 census states that there are 1,688,367 urban households. Therefore, dividing the number of urban workers by the number of urban households provides the number of workers per urban household.

$$\frac{2,346,071}{1,688,367} = 1.38 \text{ workers per urban household}$$

The application of this number to the adjusted median individual base salary provides the median urban household income; $1.38 \times 2700 = 3726$ dinars rounded to 3,700 dinars per month.

- b. Housing Typologies. Housing finance in Algeria is conceived as falling into two distinct categories: (a) social housing, "logement social", also referred to as "logement planifié"; and (b) promotional housing, "logement promotionnel". Social housing is financed and subsidized by the Treasury while promotional housing is financed through bank resources and other private sector sources (downpayments, bank loans, insurance and social funds, etc.).

1. Social Housing

Treasury funds, through CNEP, are made available to housing development agencies in the Wilayas. These agencies are named "Office de Promotion et de Gestion Immobilière" (OPGIs) and there are 53 of them, one in each Wilaya and five extra ones in the Wilaya of Algeria's. Loans to OPGIs are for a maximum term of 40 years with a 4 year grace period (reputedly the construction drawdown term). Loans are repayable in equal annual installments after the grace period, with interest calculated at 1% on the outstanding balance.

OPGIs use their Treasury borrowings to finance development and construction of "social" housing. Finished units can be (a) let out, (b) sold on a hire-purchase basis or (c) sold outright. OPGIs have been allowed to sell their units since 1973. However, until 1986 sales were minimal. In March 1988, OPGIs were authorized to price their units at below market rates determined annually by the MATUC.

OPGIs indebtedness to the Treasury on the units sold is replaced by individual mortgages to each purchaser. The terms of these mortgages, granted by CNEP on behalf of the Treasury are of 25 years at 2% interest for units built after 1981 regardless of the borrower's age or credit-worthiness.

Logement social is public housing for low income households. Before the recent reforms which set stricter eligibility criterion, it was widely available to government officials as well.

Eligibility is now based on a point system, with the highest number of points going to families with monthly income under 3,000 dinars, diminishing with higher income. Points are also accumulated for the number of family members, adequacy of current housing, veterans of the independence war, handicapped, and savings accumulated towards home purchase.

Every tenant of a social housing unit and everyone getting access to a new unit has the option to either buy or rent. Rents will be raised progressively over 5 years from their current low levels and should make purchase more financially interesting to all but the most needy, as the terms for buying are very favorable.

The sales price for social housing depends on the age of construction:

- units built before 1974; 1,200 dinars per square meter, which will soon rise to 1,500.
- units built between 1974-1981: 1,400 dinars per square meter, which will rise to 1,800.
- units built after 1981: a different price for each year; the 1989 price is 3,500 dinars per square meter.

There are 6 different sizes of units, the largest is about 110 square meters. However, the most common unit sizes are 45-50 square meters, while the standard unit used to calculate rent subsidies is 70 square meters.

2. Logement Promotionnel

There is no income eligibility criteria for buying a logement promotionnel, however, logement promotionnel is low-cost housing built by autonomous state organizations and sold directly to owner-occupants. Sales prices used to cover only the construction cost, while all other costs were subsidized by the state; now the EPFL (the organizations who construct) will have to recover all administrative, land, and design costs in the sales price. The sales terms are those offered by CNEP.

3. "Economic, ameliore and standing"

This is not a government program, but a system of classification. Sales units have been classified into 3 groups, based on size; 'Economic' is a unit less than 80 square meters, 'ameliore' is less than 97 square meters, and 'standing' is everything bigger. The classification serves to determine the mortgage interest rates offered

by CNEP and others. The government fixes the maximum interest rate which can be charged on 'economic' at 6.5%. 'Ameliore' and 'standing' type units have no fixed rate ceiling. CNEP finances these units at 9%.

TECHNICAL PROPOSED ASSISTANCE ACTIVITIES**DRAFT**

<u>First Priority Objective</u>	<u>Description of TA Input</u>
To Create a Free Urban Land and Housing Market	1. Complete an analysis of the unsold government-owned rental units and prepare an action plan for their disposition. The analysis should determine the physical condition of each unit, cost of renovation, the current tenancy, and other problems relating to sales. The action plan should include timing of renovations, how renovations will be done, their cost, and financing, and should indicate how many units will remain unsold. The action plan should take into account the potential for individual renovation loans to tenants to complement major works.
To Reduce and Target Subsidies in the Housing Sector to the Most Needy Households.	2. Survey of household revenues and budget to determine the amount of household income which can be dedicated towards housing. A sample survey should be undertaken in conjunction with an Algerian institute of applied economics (CEDEAP) to generate information on which to base revisions in lending rates, in savings capacity, in targeting rental subsidies, and rent revisions. At the present time there is no reliable information available. Generation of this data is necessary for future policy reforms. The survey should be designed by U.S. consultants, carried out by the cooperating Algerian institute under U.S. consultant's supervision. Data analysis should be carried out in the U.S.

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To Improve Affordability
and to Reduce Housing Costs.

3. Dissemination of alternative technologies for construction in earthquake-prone zones using local building materials. This should be in the form of training seminars. The first seminar will be devoted to training the local trainers who will then repeat the seminars for subsequent groups of practitioners, including architects, state construction and development agencies, private developers, the Commission Technique de Construction and others. The purpose should be to present prototype designs using locally available materials, respecting the seismic norms and building regulations in use in Algeria. OFDA will be involved in this activity.
4. Training in calculating the cost effectiveness of alternative lay-outs, infrastructure and building designs with emphasis on solutions appropriate for low income housing. This should take place in the form of working seminars where professionals can have experience in working with existing models and learning about solutions currently in use elsewhere. Participants should include planners from CNURU (Centre National d'Urbanisme Regional et Urbain), other state planning consultants, private architects, Ministry of Housing professionals at the regional level, and others. The seminars should be replicable.
5. Training for engineering firms in cost-effective designs which comply with current building codes. This seminar should

tackle the problem of reducing design and construction costs and use of lower cost building materials. It should be aimed at private and public engineers in public enterprises, consulting firms, the Ministry of Housing and the Regional Bureau of the CTC. The seminar should be replicable.

**Sustainable Housing
Finance System.**

6. Study strategies for savings mobilization. This study will draw upon information garnered from the survey of household revenues and budgets, and will identify ways of absorbing excess liquidity and channeling it into savings which could enhance the private land and housing market. The study should also identify new non-governmental institutions for savings, as future alternatives to the CNEP, and new financing mechanisms for private developers.
7. Development of long-term financial plans and interest rate strategies for CNEP. U.S. consultants will work with CNEP to develop an overview of its financial situation including its income over the medium and long term, different scenarios for interest rates, and the impact these would have on the financial solvency of CNEP. A strong element would be the use of market interest rates.
8. Evaluation and Monitoring.

Second Priority

Objective

Technical Assistance/Training
Input

CNEP Management

Management and Technical Assistance to CNEP. This should include the following activities, among others; operations management, long-term planning, project evaluation, computerization, market assessment capabilities.

Many of the training seminars outlined above can be implemented, initially with the assistance of US consultants, and by CNAT, the Algerian Construction Industry Association. CNAT not only gathers industry data, but provides a large number of training programs. It is described in greater detail in Section I. of ANNEX E on the Construction Industry.

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<u>Activity</u>	<u>Estimated Total Projected Grant Needs</u>		<u>Level of Effort</u>	<u>Projected Priority Expenditures Given Existing Grant Budget</u>	
	<u>Local Currency</u>	<u>Foreign Currency</u>		<u>Fiscal Year</u>	
				<u>1990</u>	<u>1991</u>
<u>First Priority</u>					
1. MATUC Rental sales plan	43		6 person months 24 days/month at \$300/day	43	
2. MATUC Household and Budget Survey	72		20 person months at \$150/day, 24 days/month	132	
		60	3 person months/ at \$800 per day		
3. Seminar-Alternative Construction Technologies/ Seismic Zones	10		30 seminar days (3 seminars, 10 days each) at \$300/day		60
	30		Rental of space/Logistics		
		20	1 person month, 24 days/month at \$800/day		
4. Seminar-Alternative Architectural design layouts for low cost	10		30 seminar days (3 seminars, 10 days each) at \$300/day		60
	30		Rental of space/ logistics		
		20	1 person month 24 days/month at \$800/day		

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<u>Activity</u>	<u>Estimated Total Projected Grant Needs</u>		<u>Level of Effort</u>	<u>Projected Priority Expenditures Given Existing Grant Budget Fiscal Year</u>	
	<u>Local Currency</u>	<u>Foreign Currency</u>		<u>1990</u>	<u>1991</u>
5. Seminar public and private engineering firms Low cost mechanisms to comply with building codes	20		Rental of space/ logistics		
	6		20 seminar days (2 seminars/10 days each) at \$300/day		
	15		2 person months at 24 days/month/\$300/day to develop low cost design prototypes/ seminar preparation		41
6. Strategies for Savings Mobilization Study for CNEP		60	3 person months/ 24 days/month \$800/day		60
7. Long Term Financial Plan and Interest Rate Strategies for CNEP		40	2 person months/ 24 days/month/ \$800 day	40	

<u>Activity</u>	<u>Estimated Total Projected Grant Needs</u>		<u>Level of Effort</u>	<u>Projected Priority Expenditures Given Existing Grant Budget Fiscal Year</u>	
	<u>Local Currency</u>	<u>Foreign Currency</u>		<u>1990</u>	<u>1991</u>
8. Midterm Evaluation		40	2 person months/ 24 days/month \$800/day		40
9. Monitoring		35	1.8 person months/ 24 days/month \$800/day	15	20
<u>TOTAL FIRST PRIORITY</u>	236	275		230	281
	511			511	

Notes:

Given that the identified first priority needs are \$111,000 over the estimated budget, if no additional resources were available, it is proposed that the savings study for CNEP (\$60,000 in foreign currency) be cut and the Household Survey be reduced to \$45,000 in foreign currency and \$36,000 in local currency.

Algerian professional person: 2000 Algerian Dinars/day or \$285/day, rounded to \$300
 Algerian technical person: 1400 Algerian Dinars/day or \$200/day
 Both foreign and local consultants will work 6 day work weeks.
 Foreign consultant costs include estimated travel, overhead, per diem salary.

<u>Activity</u>	<u>Estimated Total Projected Grant Needs</u>		<u>Level of Effort</u>	<u>Projected Priority Expenditures Given Existing Grant Budget Fiscal Year</u>	
	<u>Local Currency</u>	<u>Foreign Currency</u>		<u>1990</u>	<u>1991</u>
<u>Second Priority</u>					
CNEP Management/ policy reforms		400	500 person/days at \$800/day	200	200
<u>TOTAL SECOND PRIORITY</u>		400		200	200

Summary Table

<u>Projected Total Expenditures</u>				<u>Estimated Total</u>	
<u>By Fiscal Year and Currency</u>				<u>Projected Grant</u>	
<u>FY 1990</u>		<u>FY 1991 (\$000)</u>		<u>Needs by 90-91</u>	
				<u>(\$000)</u>	
<u>Local</u>	<u>Foreign</u>	<u>Local</u>	<u>Foreign</u>	<u>Local</u>	<u>Foreign</u>
<hr/>					
<u>First Priority</u>					
115	115	121	160	236	275
Total	230		281		511
<hr/>					
<u>First Priority Grand Total: 511</u>					
<hr/>					
<u>Second Priority</u>					
	200		200		
<hr/>					
<u>Second Priority Grand Total: 400</u>					
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The USIS IV Program is not included in the Summary Table. However, this would be an additive to the Program. RHUDO estimated USIS potential contribution as follows:

USIS IV Program	<u>Foreign Currency</u>	<u>Level of Effort</u>
4 persons over	\$24,000	Each person at
life of Program		\$6,000/trip

ANNEX G

POLICY ISSUES RELATED TO SHELTER FINANCE IN ALGERIA

Risks and Subsidies

For over twenty years, A.I. D. has been assisting finance institutions to confront the challenge of mobilizing short-term resources to provide long-term financing for shelter. To survive and to grow, a shelter finance institution must at least lend at a rate which covers its administrative costs and the cost of its financial resources. It must also lend at a rate which keeps up with the cost of inflation or see itself decapitalized in real terms over time. Positive real interest rates are the foundation for healthy financial policy in a competitive market environment.

An additional complication in the shelter sector is the simple fact that most families require long term loans to be able to afford a decent home. Banks lending for shelter and the governments which promote shelter lending face a challenge in managing the risks implied in long term lending. The inability of an institution to predict the future real value of its resources, i. e., the future rate of inflation, in an environment of fixed rate lending means that today's comfortable positive interest rate can easily turn into a disastrously negative return over a period of time. In the developing world the volatility of poorly developed financial markets and arbitrary government regulation of lending makes long term lending a very risky business indeed. Inflation further exaggerates the risk. The reaction of many Third World private institutions is to refuse any long term lending at all, to limit lending to a few commercial clients as a part of a larger financial deal, or to charge such a high rate of interest that very few families are able to borrow.

The solutions to the problems of the volatility of the cost of mobilizing resources and inflation, in one form or another, all involve adjustment of the loan payments. Indexing adjusts the nominal amount of the principal repaid so that its value in real terms is maintained. Variable rates link the interest rate to the bank's cost of short-term funds. Adjustment to only one part of the system can cause its own distortions. For example, a single bank or a single sector offering indexed savings, would expect to increase its share of mobilized resources in an inflationary environment. Multilateral donor experience suggests a conservative approach in establishing the phasing of reforms and in implementing any kind of adjustment in a single financial sector.

The inability of an individual institution to predict the future cost of its resources mobilized through sight deposits has led governments to a wide variety of solutions.

The most frequent government response is to provide subsidies. We are not aware of any developed or underdeveloped country which does not offer some form of assistance to the shelter sector. Examples include direct construction by government, subsidized interest rates for the whole sector, government treasury programs to reimburse the homeowner for a portion of the interest paid, grants, and tax benefits (as in the significant U. S. income tax deduction for mortgage interest). A. I. D. policy has been to minimize subsidies and to target to the neediest.

A second common strategy is to protect the housing finance system by providing a separation of the shelter finance system from the larger financial markets. Two examples of this separation are the interest rate differential which was provided to the U. S. Savings and Loan system under Regulation Q and the contract savings systems which have been the principal strategy of the Germans and, until this May, of the Tunisians. Examples from Latin American include pension fund housing lending programs. The creation of a closed system in which savings mobilized at lower rates are used to provide resources to make loans to very moderate or low income savers at low rates has been quite successful in various parts of the world. We are currently encouraging the sophisticated Indian Housing Development Finance Corporation to expand its contract savings program as a way of reaching into the informal sector by providing very low income potential borrowers the opportunity to demonstrate that they are creditworthy.

Algeria in Transition

Until recently, the Algerian economy did not permit the functioning of private, market-oriented financial markets. Using market principles to transform a largely state-owned economy is now the ambitious objective of the GOA. Many steps in the right direction have already been taken to open short-term lending to market forces. Positive interest rates will shortly prevail in most sectors. These reforms are summarized in the Project Paper and further details on the dramatic financial sector reforms are available in IMF and IBRD documentation.

In Algeria, the Caisse National de l'Epargne et de Prevoyance (CNEP) has been very successful in mobilizing resources through its savings system. CNEP has tremendous liquidity mobilized at 5 percent. The ability of CNEP to attract domestic resources will need to be further studied, but it appears that the opportunity to borrow at 6.5 percent after two years of saving and the very widespread and convenient savings services offered by CNEP have generated so

much savings that the problem perceived to be most urgent by Algerian decision-makers relates to the investment of this liquidity, not how to generate more liquidity. The HG program accordingly will examine the long-term financial strategy of CNEP to determine to what extent this closed-ended, protected financial system is viable in the long run and how the shelter sector should be reshaped in the context of the overall rethinking and reform of Algeria's financial markets now underway.

At the present time, the majority of CNEP's loans are made to non-savers at 9 percent, above the present rate of inflation and well above the rate of inflation which the IMF estimates will prevail by 1994. The question of when or whether the overall portfolio will provide a real rate of return with respect to inflation requires an analysis to determine the return to CNEP which takes into account CNEP's old mortgages (which were made at 5 percent), its current mortgages lending to contract savers at 6.5 percent, and the 9 percent loans (to non-contract savers) which constitute the majority of its portfolio. Equally important, it will require a projection of CNEP's costs for the mobilization of resources, especially in the light of other saving and investment opportunities which will develop as a result of the May 1989 financial reforms now underway.

Conclusion

We believe that CNEP will achieve a positive financial return and a positive return relative to inflation by the end of the program in 1992. It appears that the contract savings system has worked very well (maybe too well) in mobilizing resources in the past and that CNEP's financial stability is not in question for the near future. But is CNEP protected against inflation? Despite the IMF projections, we believe that CNEP, like every other financial institution making long-term fixed-rate loans, runs a considerable risk. A. I. D. will be offering the Algerians substantial technical assistance to expose decision-makers to variable rate mortgages and other options designed to help shelter finance institutions survive in these uncertain times.

The primary purpose of this program will be to use the private sector to address the economic distortions and bottlenecks on the production side--land, infrastructure and the excessive role of the government in the production of construction materials and of shelter and to accelerate the divestiture of publicly owned shelter. However, we believe that the financial issues are of vital importance. We will be seeking every opportunity to establish a serious dialogue with the decision-makers both within and outside of the Ministry of Housing and Construction. We are determined that, at the margin, this very modest additional investment in the shelter sector will make a positive contribution.

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LIST OF ACRONYMS

AD	Algerian Dinar
A.I.D.	U.S. Agency for International Development, Washington, D.C.
CNEP	Caisse Nationale d'Epargne et de Prévoyance
DA	Algerian Dinar
EPLF	Family Housing Development Agencies
GOA	Government of Algeria
HG	Housing Guaranty Program
MATUC	Ministry of Housing, Urban Development and Construction
OPGI	Housing Development and Management Agency
PRE/H	A.I.D. Office of Housing and Urban Programs
USG	Government of the United States of America
CCC	U.S. Commodity Credit Corporation
RHUDO/NENA	Regional Housing and Urban Development Office, Near East and North Africa
CNAT	Centre National d'Animation des Entreprises et de Traitement des Informations du Secteur de la Construction (Construction Industry Association)
CTC	Commission Technique de Construction (Technical Construction Committee)
CENEAP	Centre National de l'Economie Applique
CNUR	Centre National d'Urbanisme Regional et Urbain
ANAT	National Land Planning Agency

Exchange Rate 7 Algerian Dinars/\$1 US

LIST OF PERSONS METMinistry of Housing (MATUC)

1. Mr. Tebal	Secretary-General
2. Mr. Halladj	OPGI
3. Mr. A. Ferhah	Division of International Cooperation
4. Mr. Djama	Division of International Cooperation
5. Mr. Y. Hadim	Division of Real Estate Promotion
6. Mr. Boutaa	Division of Real Estate Promotion
7. Mr. Sassi	Division of Press and Information
8. Mr. Rebzani	Technical Construction Commission
9. Mr. Loucif	Division of Planning
10. Mr. Saada	Division of Housing
11. Mr. Hammadi	

Ministry of Finance

Mr. Brait	Division of Lands
Mr. Y. Yemmi	Division of External Relations

Central Bank

Mr. Mahtali

Ministry of Labor

Mr. Bel Hassan	Division of Salaries
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National Statistical Office

Mr. Bel Kassem

CNEP

Mr. M. Abdellaoui	Deputy Director General
Mr. Kennouchi	

Chamber of Commerce

Mr. Battahir	Secretary-General
Mr. Shaami	
Mme. Selwa	

Other Individuals

Mr. M. Djebbar	Private Builder
Mr. Dubert	Private Architect
Mr. Zaidi	Mayor of El-Harrach
Mr. Djemaa	Mayor of Bordj El-Kiffan