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ALGERIA INVESTMENT CLIMATE ASSESSMENT

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The metric system is used throughout this report

FISCAL YEAR
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ABBREVIATIONS AND ACRONYMS

ABEF	*Association Algérienne des Banques et Etablissements Financiers*
ANDI	*Agence Nationale de Développement de l'Investissement*
BTPH	*Bâtiment, Travaux Publics et Habitat*
CACI	*Chambre Algérienne de Commerce et d'Industrie*
CALPI	*Comité d'Assistance pour la Localisation et la Promotion des Investissements*
CARE	*Cercle d'Action et de Réflexion autour de l'Entreprise*
CCIA	*Chambre de Commerce et d'Industrie de Annaba*
CCP	*Centres des Chèques Postaux*
CEIMI	*Confédération des Entrepreneurs et Industriels de la Mitidja*
CENEAP	*Centre National d'Etudes et d'Analyses pour la Population et le Développement*
CNAS	*Caisse Nationale de l'Assurance Sociale*
CREAD	*Centre de Recherche en Economie Appliquée au Développement*
DA	*Algerian Dinar*
DECRG	*Development Economics Research Group (World Bank)*
EGZI	*Entreprise de Gestion des Zones Industrielles*
ESCA	*Ecole Supérieure de Commerce d'Alger*
FIAS	*Foreign Investment Advisory Services*
GDP	*Gross Domestic Product*
HEC	*Ecole des Hautes Etudes Commerciales (France)*
IBS	*Impôt sur les Bénéfices des Sociétés*
IMF	*International Monetary Fund*
ISG	*Institut Supérieur de Gestion*
MNA	*Middle-East and North Africa region*
MNSIF	*Private Sector, Financial Sector and Infrastructure, MNA region, World Bank*
MPPI	*Ministère de la Participation et de la Promotion de l'Investissement*
ONS	*Office National des Statistiques*
PPI	*Private Participation in Infrastructure*
PSAIC	*Investment Climate Unit, Private Sector Advisory Services, World Bank*
SEVE	*Savoir et Vouloir Entreprendre* (association of women entrepreneurs)
SMEs	*Small and Medium-Sized Enterprises*
TFP	*Total Factor Productivity*
UNDP	*United Nations Development Program*
VAT	*Value Added Tax*
WTO	*World Trade Organization*
ZAC	*Zone d'Activité Commerciale*

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What Is an Investment Climate Assessment?

Investment climate assessments systematically analyze the conditions for private investment and enterprise growth in a country, drawing on the experience of local firms to pinpoint the areas where reform is most needed to improve private sector's productivity and competitiveness. By providing a practical foundation for policy recommendations and involving local partners throughout the process, the assessments are designed to support policy reforms that can speed up private sector's growth, leading to faster economic growth and poverty reduction.

Produced by the World Bank Group in close partnership with a public or private institution in each country, the investment climate assessments are based on a survey of enterprises to find out what difficulties they encounter in starting and running a business—and, if the business fails, in exiting. The survey captures firms' experience in a range of areas—financing, governance, regulation, tax policy, labor relations, conflict resolution, infrastructure services, supplies and marketing, technology and training. These are areas where difficulties can add substantially to the costs of doing business. The survey attempts to quantify these costs. Using a standard methodology, the assessment then compares the survey findings with those in similar countries to evaluate how the country's private sector is faring and how well it can compete.

The findings of the survey, combined with other relevant information from other sources, provide a practical basis for identifying the most important areas for reform aimed at improving the investment climate. The assessments look in detail at policy, regulatory, and institutional factors that hamper the provision of good-quality infrastructure services and the functioning of product, financial, and other markets, linking the constraints to firms' costs and productivity.

In each country the investment climate assessments draw on the guidance and expertise of local partners in government and the business community. The findings and policy recommendations emerging from the assessments are discussed extensively with the private sector and other stakeholders in the country. This broad dissemination of the findings is aimed at engaging not only policymakers but also business leaders, investors, nongovernmental organizations, and the donor community in shaping the national private sector development strategy, forging consensus on the priorities for reform of the investment climate, and laying the groundwork for concrete responses to the problems identified. Updates of the assessment can help track progress in improving the investment climate.

Recent investment climate assessments include China, Eritrea, India, Morocco, Mozambique, and Pakistan. In this report, Algeria is benchmarked mainly relative to Morocco, India and China, countries for which comparable survey data are available. While the selection of comparators is largely a matter of judgment and data availability, international benchmarking of both constraints and outcomes is an essential element of the usefulness of ICAs in showing how different countries fare against each other in the provision of an investment climate conducive to the development of their private sector. References to the achievements and constraints of economies of similar levels of development (eg. Morocco), help infer what is feasible or imperative in the performance of Algeria's economy or in reforming its policy framework.

This investment climate assessment was prepared by Najy Benhassine and Christian Schmidt (MNSIF). Geneviève Boyreau-Debray (DECRG) conducted the productivity analysis and the international comparisons, and wrote the corresponding sections of the report. Research assistance and data analysis was provided by Nabila Assaf (MNSIF), Antoine Frédéric Bozio (Harvard University and Ecole Normale Supérieure, Paris) and Sergio Kurlat (DECRG). Albert Zeufack (EASPR) provided guidance in the initial stages of the survey launch. Peer reviewers were Uma Subramanian (PSAIC) and Samy Boukeila (CARE business association, Algeria).

The survey was conducted by CENEAP between June 2002 and February 2003, in collaboration and under the supervision of the World Bank. Mohammed-Cherif Belmihoub (Ecole Nationale d'Administration and CREAD - Algeria) contributed to its preparation and launch. The database was provided by ONS. Enumeration was conducted by a group of about 50 graduate students contracted by CENEAP. The UNDP office in Algiers funded part of the survey. The World Bank liaison office in Algiers provided logistical assistance.

Parts of the report builds on the "*Algeria Private Sector Development Strategy Note*", World Bank (2003), which was written in parallel by the same team, and also included Patrick Tardy (consultant) and Mohammed Bekhechi (LEGEN) as main authors. Details of the institutional background, policy issues, and policy recommendations are included in that report and have not been reproduced here, except for the summary policy matrix.

The report also draws from "*Algérie: Diagnostic sur le Climat de l'Investissement Etranger*" (FIAS, December 2002) and from "*Algérie: enquête d'image auprès d'investisseurs étrangers potentiels*" (MNSIF/FIAS, 2003). This foreign investors survey was conducted in France, Italy and Spain during the spring of 2002, by a team of graduate students from HEC Junior Conseil (a students' consulting arm of HEC business school, France), led by Brice Garnier and Ngoc Tram Lai, and under the supervision and guidance of Najy Benhassine (MNSIF). Enumeration in Spain and Italy was contracted out by HEC Junior Conseil to their counterparts in Bocconi University Business School (Milan) and ESADE Business School (Barcelona).

The team benefited from the support and guidance of a number of Government officials in Algeria, including staff from: the ministries of SMEs (official counterpart), Industry, Finance, Privatization and Investment Promotion, Commerce, Labor, and Justice ; the one-stop-shop agency, ANDI; and the Wilayas of Algiers and Annaba. Moreover, the team has benefited extensively from advice and comments during various presentations at different stages of this project - at the World Bank and in Algeria. Participants included more than 100 business owners; representatives from most Algerian banks and the Algerian bankers association (ABEF); various business associations (Forum des Chefs d'Entreprises, CARE, SEVE – association of women entrepreneurs, CEIMI, Association des Entrepreneurs de la Vallée du M'Zab); the CACI and CCIA chambers of commerce and industry; and various research and academic institutions: CENEAP, CREAD, University of Algiers, ISG and ESCA business schools.

Steve W. Wan Yan Lun, Lin Wang Chin, and Mehdi Benyagoub contributed to the production of the document.

PREFACE

This investment climate assessment is part of a series of analytical works on Algeria prepared by the World Bank with the aim of laying out the basis for the elaboration of the Bank's Country Assistance Strategy for the country. It is based on three pieces of work undertaken in parallel in Algeria between January 2002 and March 2003:

- An investment climate survey of 562 Algerian firms in nine administrative regions (Wilayas). These covered formal private and public enterprises of more than 5 employees, located in the main urban centers, and in ten sectors from industry, construction and services. The trade, agriculture and hydrocarbon sectors were excluded from the sample, as well as government agencies, universities and research centers[1].

- A series of four missions to Algeria has been conducted in parallel to the survey to assess the main institutional issues underpinning the constraints to private sector development. Combining the survey results to this policy work led to the PSD strategy summarized in chapter III of this report, and detailed in the "*Algeria Private Sector Development Strategy Note*", World Bank, June 2003.

- A foreign investors survey of 57 European investors from France, Italy and Spain. All of them have recently expressed interest in investing in Algeria, but have not invested yet, either because they have delayed their decision, or, for a few of them, they have abandoned their investment project. The questionnaire used for this survey is the standard FIAS foreign investors questionnaire. The main survey findings are summarized in this report, and are detailed in "*Algérie: enquête d'image auprès d'investisseurs étrangers potentiels*" (MNSIF/FIAS, 2003).

It also draws on various international comparative studies and indicators, as well as on some World Bank reports. In particular, the macroeconomic overview in chapter I draws from the "*Medium-term macroeconomic strategy for Algeria*" (2003) and the *April 2003 Algeria Economic Monitoring report*.

The report is organized as follows: chapter I gives a general background of the main macroeconomic issues in Algeria, recent developments, and a brief description of the enterprise sector. Chapter II presents the main findings of the ICA survey, with a particular focus on differences among types of firms (size, ownership, sector and age). It also estimates the effect of the investment climate on productivity and wages. Summaries of the main institutional issues and policy recommendations complement the quantitative assessments of the constraints. In each area, international comparisons are presented, based on similar surveys in other countries or other sources. It also includes a summary of the findings of the potential foreign investors survey. Chapter III builds on the survey evidence to identify the priority institutional reforms needed to improve the investment climate in Algeria. As a result, a short to medium term strategy for private sector development is proposed, which includes a detailed set of reform actions.

[1] see Annex II for details on the sample and the methodology.

ALGERIA INVESTMENT CLIMATE AT A GLANCE

	Algeria		Morocco		India		China	
	1995	2000	1995	2000	1995	2000	1995	2000
Macro environment								
GNI per Capita (US$, PPP)	5110	5840	2860	3320	1850	2340	2650	3929
Population (million)	28.06	30.4	26.40	28.70	929.00	1016.00	1205.00	1262.00
GDP Growth (1991-95)- 1996-2000, Avg %	0.28	3.18	1.13	3.71	5.20	5.70	12.10	8.20
Import+Export as a % of GDP	57.90	63.77	61.50	68.58	25.70	30.50	45.70	49.10
Private Investment (GDFI % of GDP)	21.86	13.51	17.75	20.74	18.20	17.00	18.60	17.30
Public Investment (GDFI % of GDP)	7.27	8.03			8.40	7.30	22.20	19.90
FDI Inlows (Net % of GDP)	0.00	0.75	0.97	0.43	0.60	0.50	5.10	3.60
Unemployment rates (2001)		27.00		19.50		9.20		9.30
Micro environment								
Imports:								
Avg. days to clear customs		23.20		23.20		10.45		7.49
Days to Clear Customs (longest)		44.40		5.40		21.20		12.50
Exports:								
Avg. days to clear customs		8.60		1.69		5.07		5.49
Longest day to clear customs		14.21		2.75		9.29		8.13
Avg Nb. of Years of Education by Occupation								
1 Skilled Profesional		9.40		8.00		11.30		
Unskilled Worker		5.00		5.50		9.50		
Labor:								
Share of permanent workers that are female		13.65		47.39		18.34		44.49
Desired # of Empl as a % of current empl		135.51		78.77		82.76		87.45
Share of firms offering formal training		31.84		16.30		27.17		69.61
Infrastructure								
% of firms with own generators		29.00		17.00		69.00		16.00
% of firms with own well		32.00		29.00		51.00		16.00
Main line Telephone per 1000 (2001)		60.00		39.00		34.00		138.00
MobileTelephones per 1000 (2001)		3.00		157.00		6.00		112.00
Finance								
Credits, Loan and Liabilities:								
Share with Overdraft or Line if Credit		37.50		77.40				21.80
Share of Credit that is Currently Unused		39.60		25.50				29.70
Share with a loan from a bank or financial institution		50.40		45.10				57.00
(a) Share that require collateral		82.39						82.97
(b) Average value of collateral required (as % of the loan)		184.57						88.87
(c) Average interest rate on loan		11.25						6.58
Share of equity and retained earnings in total liabilities		95.71		28.86		44.33		42.13
Source of Finance:								
Retained earnings		71.60		62.00		30.40		51.50
Banks, other financial institutions		7.00		19.60		36.10		20.60
Days to clear through your financial institution								
(a) a check		23.00						4.70
Share of land that is:								
(a) owned		62.00						53.98
(b) leased or rented		19.30						25.23
Governance								
Revenue reported by typical establishment for tax purposes(%)		72.51						54.91
Control of Corruption		-0.62		0.44		-0.39		-0.30
Rule of Law		-0.97		0.46		0.23		-0.19
Political Stability		-1.27		0.16		0.39		-0.05

ALGERIA INVESTMENT CLIMATE ASSESSMENT

EXECUTIVE SUMMARY

Based on large reserves of oil and natural gas, Algeria's economy is dominated by and depending on the hydrocarbon sector, which represents 95 percent of exports and about 30 percent of GDP. Growth performance has consequently been volatile over the past decades in view of oil price fluctuations. While Algeria has performed relatively well in the second half of the nineties – achieving successful economic and political stabilization, followed by a recovery of growth, a significant improvement of the investment climate will be needed to attract much needed local and foreign private investment outside the hydrocarbons sector.

Also high on Algeria's current economic agenda must be a much needed reduction of the unemployment rate, currently hovering under 30 percent. Provided the market transition is accelerated, strong, private sector-led investment, facilitated by a better investment climate, has the potential to provide the job creation rates needed to absorb the ever increasing number of young Algerians entering the job market every year.

The survey results confirm that Algeria has made the transition from an economy of *shortages* to one of *constraints of growth*. A few years ago, entrepreneurs complained about the lack of raw materials and other inputs, they nowadays report shortages of skilled labor and industrial land. However, this potential for private investment growth is not met yet, mainly because of a poor business environment. Overall, the investment climate survey of 562 Algerian firms (as well as the survey of potential foreign investors and results from focus group meetings) convey the same picture of bottlenecks to the development of enterprises: (i) lack of access to credit, (ii) competition issues, (iii) difficulty of access to industrial land, (iv) uncertainty in economic policies, and (v) governance issues. International firms from France, Italy and Spain, that have so far shied away from investing, also mention the security issue as still looming rather prominently, despite significant improvements in the situation over the past years.

Selected examples for some of these bottlenecks show that, on average, only 11 percent of working capital and 16 percent of investments are financed by bank credit, and almost 74 percent of all financing derived from retained earnings. Regarding the land access issue, 37 percent of the surveyed firms are searching for an industrial plot to create a new venture or to expand their business. On average, they have been searching for 5 years. It takes, on average, 18 steps and 93 days to register a firm, 130 days to get a construction permit, 35 days for other licenses or permits, and 238 days to have a fixed telephone line installed.

These indicators result from constraints of two types: (i) those pertaining to **factor markets**: *credit* and *land* top the list, followed by the *labor* market with the lack of qualified staff, the poor infrastructure, and the lack of reliable business information; and, (ii) those pertaining to **governance, market institutions and economic policy** issues: *competitive issues, policy uncertainty, corruption*, dealing with the *public administration*, the *tax authority* and the *judicial system*.. Not surprisingly, different types of firms (public vs. private, small vs. large) react differently to these constraints. In particular small firms suffer dis-proportionally more of the poor business environment than larger firms. Also, public firms have access to better infrastructure services and seem to have better access

to public procurement contracts, while the private sector (especially large firms) seem to have better access to credit. Finally, the survey shows that older, established private firms appear to differ significantly from more recently created firms, both in terms of their perception of the constraints (they complain more about "unfair competition" than more recently created firms do) and in terms of coping with the business environment.

Regarding productivity , and compared to other countries, Algeria exhibits the lowest performance in terms of value added and total factor productivity in a selected industry, namely garments, that was selected for availability of comparators. We also find that firms that face a better investment climate have higher value-added per worker and higher total factor productivity, and they also pay higher wages.

Based on the main constraints as expressed by businesses, we devise a set of six short to medium-term priority reforms to improve the investment climate. These include specific actions to: (i) reform the institutional set-up of the industrial land market; (ii) accelerate the reform of the financial sector; (iii) reduce administrative bottlenecks and improve access to information; (iv) reform the taxation framework; (v) improve access to quality infrastructure, especially in industrial zones; and, finally, (vi) reform the legal and judicial system. In addition to the aforesaid, there is also the cross-cutting need to foster the privatization process.

To achieve the above reform measures to further enterprise development, the role of the State would have to change. Over and above the need for strong political will to spearhead and champion the reforms, the State would also have to face up to the double challenge of increasing its role as a regulator while decreasing its role as an interventionist. This would entail a capacity increase to regulate markets, enforce decisions, and ensure a level playing field among market participants by providing strong, effective and reliable public services and market institutions (customs, tax authority, anti-trust agency, judicial bodies). It would likewise mean that the State accepts to let the private sector play a stronger role in land and credit markets, in the investment process and in the provision of services to enterprises and of infrastructure, and in the production of those goods and services that do not exhibit public good or strategic features.

The coming years will be crucial for Algeria's unfinished transition to a market economy. With rising political competition foreshadowing the 2004 presidential elections, the economic reform process seems to have slowed down recently. The business environment that is being discussed in the report could, if changed for the better, play a crucial role as part of the reform process.

CHAPTER I
ALGERIA'S ECONOMY: OVERVIEW AND RECENT DEVELOPMENTS

Successful economic and political stabilization, resumption of growth, but a complex political economy of reforms hindering investment

I.1 BACKGROUND AND OVERVIEW[2]

After gaining its independence in 1962, Algeria adopted a centrally planned economic system, nationalizing most economic activities, including the hydrocarbons and agriculture sectors. The fast growing oil and gas export revenues were leveraged to finance an import substitution development strategy based on large investments in heavy industry. In parallel, large public spending in the social sectors enabled significant improvements in the human development indicators, in particular in health and education.

Although completely discouraged and marginalized, some private entrepreneurs were still able to coexist with the State economy. Often close to the State "intelligentsia", these entrepreneurs depended on the public sector for all economic activities (imports, raw materials, distribution, demand etc.). While most of them suffered from State controls, administrative prices and caps on their investments, some undoubtedly flourished in the shadow of the socialist economy, thanks to trade protection, low competition, monopolistic situations in niches left by the public sector[3], and State-guaranteed markets and demand for their products.

Early signs of backtracking from this socialist strategy started in the early eighties, with the first reforms of the public sector, which also included reduced regulation of private sector activities, in particular on investment caps. While still heavily regulated, private investment increased and gave birth to a small class of "socialist era" entrepreneurs. These reforms were accelerated after the fall of hydrocarbon prices in 1986, and the consequent dramatic drop in public investment.

This background on the development of the enterprise sector is important to understand today's picture. Algeria's transition to the market, when compared to Eastern Europe's, is rather peculiar in its extremely slow development and in the coexistence of an old private sector which survived and often benefited from central planning. As the ICA survey results will show, this "old" private sector appears to differ significantly from more recently created firms, both in its perception of the constraints, and in its business environment. They also differ in structure and productivity. This divide -much more than the public/private enterprise divide- probably contributes to explaining the political economy of the slow pace of reforms to improve the poor investment climate in Algeria.

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[2] The analysis, the figures and the estimates in this section are based on "A medium-term macroeconomic strategy for Algeria", World Bank, 2003.

[3] Particularly in the poorly capitalized, high-profit sectors where demand was not being met. Private enterprises were able to dominate the sectors of retail commerce, services (restaurants, small hotels, computers), land transportation, tailoring/hosiery, finishing work in construction, processing of plastics, printing, leather work, hardware, etc. These enterprises generally supplied, retailed and did subcontracting work for public enterprises (which concentrated on industry, rail, maritime and air transportation, and processing of raw materials).

I.2 ALGERIA'S GROWTH RECORD AND RECENT ECONOMIC DEVELOPMENTS[4]

Accounting for Algeria's poor growth performance: high volatility and policy distortions.

After an average of 2.2 and 5.1 percent yearly growth rates in the sixties and the seventies, Algeria's growth record of the past two decades, -0.2 percent on average, has been disappointing. Growth collapsed for a decade since the mid-1980s, due to the adjustment to the oil price slump and disruptions associated with a slow and difficult transition from the command economy to the market, coupled with a political transition that turned violently instable during the nineties. Poor productive efficiency also contributed to the protracted collapse of growth. TFP growth was negative for the late 70s to mid 1990s. This was due to large relative price distortions during the command economy period, and limited openness to non-hydrocarbon trade and FDI. The drop in TFP growth accounted for about half of the 4.2 percentage point decrease in GDP per capita annual growth since 1985, relative to the previous 15-year period. Shrinking public sector investment in the face of the slump in hydrocarbon revenues accounted for the rest of the collapse of growth (Figure 1).

Figure 1: Growth in percent, per year

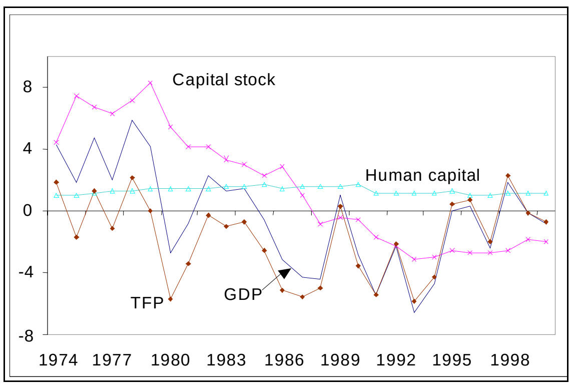
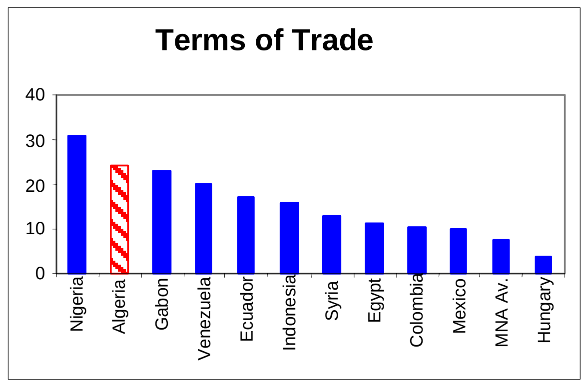


Figure 2: Terms of trade volatility (%)
(Standard deviation of the annual percentage change in the terms of trade)



Algeria's excessive exposure to oil shocks is one of the defining features of the economy (Figure 2). External vulnerabilities have increased over time as the country was unable to diversify its exports. With non-oil exports accounting for less than 3 percent of the total, Algeria's exports are among the least diversified in middle-income countries[5]. Half of them are chemical and plastic goods, a quarter steel and mechanical goods, and the remaining a combination of agricultural, mining and transformed goods. Seventy five percent of non-oil exports are destined to only 5 countries, mostly in southern Europe, and most enterprises producing exportable goods are State-owned, enjoying high protection. Foreign direct investment in Algeria has also mostly been concentrated in the hydrocarbon industry.

Recent economic developments

Reforms accelerated during the nineties, in the midst of political instability, macroeconomic turmoil and unsustainable levels of debt service. The Government embarked in a series of ambitious reforms and achieved significant success in macroeconomic stabilization in the face of volatile oil prices, and some progress in structural reforms, including price, trade and investment liberalization. These

[4] The analysis, the figures and the estimates in this section are, in large parts, exerts from "*A medium-term macroeconomic strategy for Algeria*", World Bank, 2003.

[5] This is mostly a consequence of years of overvalued real exchange rates, lack of FDI in non-hydrocarbon sectors, and distorted price policies.

reforms have laid the basis for a growth recovery. GDP grew by 3 per cent a year, on average, from 1999 to 2002; with similar growth performance from the non-hydrocarbon, nonagricultural sector, led by a strong 5 percent real growth in value added from private manufacturing industries. Higher oil prices and tighter demand management turned fiscal and current account deficits into sizable surpluses by 2001, the balance of payments averaged a surplus of 11 percent of GDP in 2000-2002, and inflation fell from over 20 percent in 1994 to 1.4 percent in 2002.

Table 1: Algeria: Output, Prices and Unemployment (%)

	1990-95	1996	1997	1998	1999	2000	2001	2002
Real GDP growth rAte (%)	0.3	4.1	1.1	5.1	3.2	2.4	2.1	2.1
Real growth of non-hydro GDP (%)	0.1	3.1	-1.3	5.7	1.7	1.2	4.2	5.5
Inflation rate (CPI) (%)	27.3	18.7	8.4	2.3	2.7	0.3	4.2	2.0
Unemployment rate (%)	23	28	28	28	29	29	27	27

Source: World Bank databases, IMF, Algerian authorities (ONS)

The resumption of growth in the non-hydrocarbon sector is however fragile since it is mostly fuelled by public investment and therefore vulnerable to oil price swings. Unfortunately, private investment response to the improved macroeconomic situation has been weak due to high constraints to doing business, in particular in terms of high administrative barriers and the poor functioning of the credit and industrial land markets.

The Association Agreement with the EU offers a tremendous opportunity for Algeria's integration in global trade markets, but also raises important challenges. New enterprises should be encouraged to take advantage of export opportunities in the emerging Euro-Mediterranean free-trade zone. At the same time, import-competing industries will be exposed to increased competitive pressures once the Temporary Additional Tariff ("*Droit Additionel Provisoire*") is removed. Companies in these industries—especially public enterprises—will need to undergo considerable restructuring and improve their efficiency in order to withstand competition. Algeria has made progress towards achieving competitive unit labor costs in a number of labor-intensive industries that are important for job creation. Consolidating such competitive positions would need a conducive business environment to promote investment in these industries and foster productivity growth.

I.3 DESCRIPTION OF THE ENTERPRISE SECTOR

Obtaining accurate data on the enterprise sector in Algeria is a challenge. There are many different, unreliable, data bases. None are interconnected. The table below[6], which covers only the formal sector, shows that the construction and industry sectors are predominant. Commerce and trade are still underdeveloped, although it is likely that many individuals and small firms are operating informally in these sectors. Ninety-five percent of formal enterprises have less than 10 employees[7]. These enterprises employ 44 percent of all registered labor. For the whole enterprise sector, the average number of employees by firm is only 4. There are only 518 private enterprises with more than 100 employees.

Table 2: Number of formal enterprises, number of employees (2001)

[6] From the 2001 figures of the Caisse Nationale d'Assurance Sociale – the social security administration, by far the best source of information on the formal enterprise sector.

[7] However, regular inspections made in 2001 by the Labor Inspectorate at the Ministry of Labor over a sample of 7,779 enterprises showed that 41.45 percent of employees were not properly registered.

Total by sector	**Number**		**Perrcentage**	
	Firms	**Workers**	**Firms**	**Workers**
Agriculture and fishery	5 258	38 830	2,9	5,3
Water, energy, and energy services	338	7 797	0,2	1,1
Mining	485	4 860	0,3	0,7
Construction	51 873	209 621	28,8	28,4
Manufacturing	40 744	189 507	22,6	25,7
Transport and manufacturing	16 015	38 682	8,9	5,2
Trade and commerce	29 070	116 982	16,2	15,9
Services	36 110	130 783	20,1	17,7
Total	**179 893**	**737 062**	**100,0**	**100,0**

Enterprises are concentrated along the coast. Algiers is by far the most important economic center with 28 percent of registered firms, followed by Oran (7 percent) and 6 Wilayas, each accounting for around 4 percent (Setif, Tizi Ouzou, Chlef, Constantine, Bejaia and Blida). Only 11 percent of enterprises are located in the South. Regarding *the legal status of registered enterprises*, only 3 percent are joint-stock companies, 53 percent are limited liability companies and the rest are partnerships or single owner firms. Algerian businesses are small family affairs, mostly closed to outside investors.

One consequence of this structure of the Algerian enterprise sector is that most firms are centered on their local market. In the sample of 562 firms surveyed, sixty percent of sales, on average, are transacted in the local market, 39.2 percent in other regions and only 0.7 percent are exported. Very few firms have developed a national distribution network. Retail distribution is undeveloped.

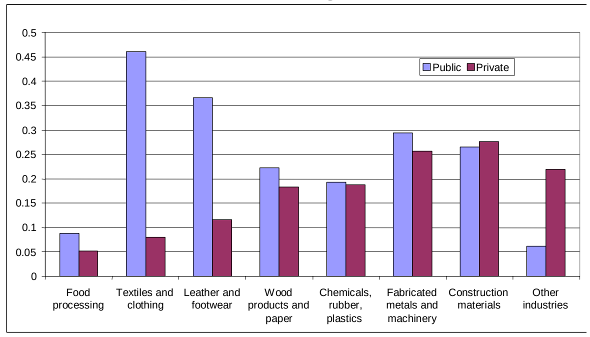
The public sector has a large, albeit decreasing role in the non-hydrocarbon economy. As of 2000, its share in total value added was 57.8 percent, and only 23.8 percent excluding hydro-carbons. It however still dominated industry with 65 percent of value-added. An analysis of national account data over an 11-year period, from 1990 to 2000[8], gives a good picture of the growing role of the private sector over the past decade:

- Outside hydrocarbons, private enterprises have been generating more value added than the public sector.[9] While the non-hydrocarbon value added of public enterprises stayed flat after 1995, it kept growing steadily in the private sector.
- In the early 1990s, public enterprises were paying more than double the aggregate wages paid by the private sectors. By the end of 2000, they were about equal[10].
- Except for the year 2000, private firms always generated a higher operating income (on aggregate) than public firms. In several sectors – e.g. mechanical industries, textiles, agro-industries, leather and shoes, and services – public firms were regularly loss making. With the exception of textiles in 1993-94, the private sector never showed a loss in any sector over the entire period.

[8] Based on figures compiled by the Algerian National Office of Statistics (ONS).
[9] However, public enterprises still generate more value added (on aggregate) in some industrial sectors (mechanical industries, building materials, chemicals, paper and wood).
[10] However, unit wages are still much higher in public enterprises (about double).

- Unit labor costs in manufacturing are, on average, lower in the private sector, reflecting a better productivity performance—especially in light industries such as textiles, leather, and footwear (Figure 3).

Figure 3: Unit labor costs in public and private enterprises, average 1998-2000



I.4 THE GROWTH CHALLENGE

At the top of Algeria's current economic agenda is a drastic reduction in the unemployment rate, estimated to be around 27 percent in 2001 (ONS data). Provided the transition to the market is accelerated, strong, private sector-led investment has the potential to provide the job creation needed to absorb the unemployed and the increasing number of young Algerians who enter the labor market every year.

Ultimately, sustainable acceleration of growth in the non-hydrocarbon sector will only be possible if constraints to the efficient use of all production factors are reduced and if Algeria lessens its exposure to oil price volatility. Only then will the high structural unemployment be reduced, paving the way for improved living conditions for the Algerian population in the medium term. Structural and macroeconomic policies will therefore have to address a simultaneous challenge:

A. Fostering private sector development by improving the investment climate and reducing constraints to the efficient use of resources. Public services as well as markets for labor, credit, land and information, all suffer from severe inefficiencies leading to underutilization of production factors and to a growing informal sector. The structural reforms needed to correct these call for a fundamental redefinition of the role of the State in the economy. This entails two major policy shifts where Algeria has made little progress to date: (i) increasing the State capacity to regulate markets, enforce decisions, ensure a level playing field among all participants; and provide more effective public services; and, (ii) reducing the State intervention in areas where private operators should progressively take over, in particular in the land and credit markets, the provision of infrastructure; and the production of goods and services that do not exhibit public good or strategic features.

B. Strengthening the fiscal framework, to better manage volatility and secure medium-term fiscal sustainability. Strengthening fiscal management would call for a multi-year, integrated fiscal framework, with the aim of de-linking expenditures from the volatile hydrocarbon revenues, while saving excess revenues for the future in the context of an appropriate asset and liability management strategy.

CHAPTER II
THE INVESTMENT CLIMATE IN ALGERIA AS 562 LOCAL FIRMS LIVE IT

Not the same for all: stories of old and new entrepreneurs, small and big firms, public and private ownership

Sections II.1 to II.3 below summarize the results of the survey that was conducted on a random sample of 562 Algerian firms, both public and private, between June 2002 and March 2003. The description of the survey methodology and sampling strategy, as well as descriptive statistics of the sample are attached in Annex II. To fill-out the four-module questionnaire[11], each interview involved a series of two to three meetings with the business owner or manager, as well as the accountant and, when there was one, with the human resources manager. It also involved interviews with a group of five to twelve, randomly selected workers in each firm, totaling 4,220 employees.

To put the survey evidence in context, we present, for each feature of the investment climate, a short summary of the main issues and, when appropriate, the main recommendations and reforms needed. These are slightly more detailed for the *access to finance* and *access to industrial land* constraints, as those are particularly acute.

Section II.4 gives a short summary of the results of a foreign investors' survey of 57 French, Italian and Spanish companies that have recently expressed interest in investing in Algeria, but have not done so yet[12].

II.1 PRIORITIZING AND SEARCHING FOR THE BINDING CONSTRAINTS: THE VIEW OF BUSINESS MANAGERS

Clear identification and prioritization of barriers to enterprise development is the first necessary step to pave the way for the definition of a strategy and action plan to improve the business environment. Overall, the investment climate survey, the survey of foreign investors and the focus-group meetings with various stakeholders convey the same picture of where the main bottlenecks to the development of enterprises in Algeria are to be found **–** whether private, public, foreign, or local firms. The figure below gives the percentage of firms which cited each issue as being the most severe constraint to the development of their business.

The constraints are basically of two kinds: those related to the access to *factor markets* (credit[13] and industrial land), and those related to *governance and economic policy issues* (informal sector and unfair competition tops the list, followed by the tax rate, policy uncertainty and corruption). Unsurprisingly, the *tax rate* ranks fourth in the list, despite the fact that corporate tax rates in Algeria are slightly below the MNA average. While it is not the scope of this assessment to address the level of taxes, we will give some evidence of the problems businessmen face in dealing with the tax

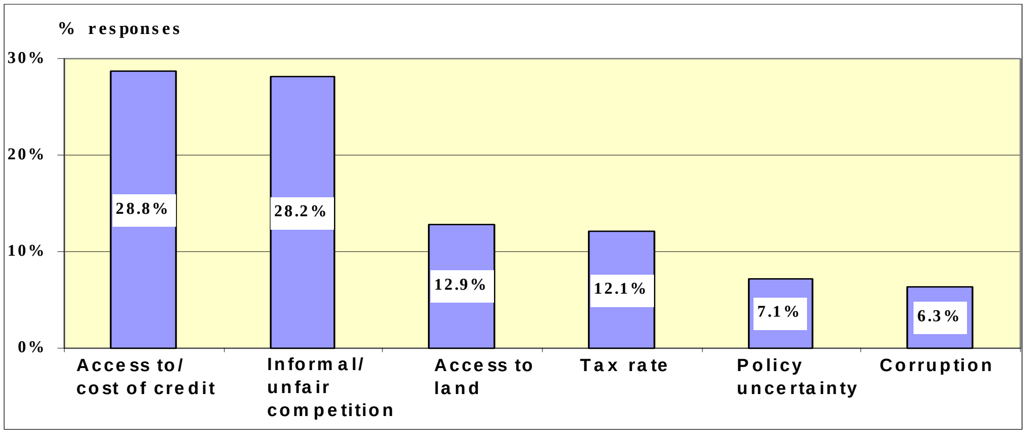
[11] A French version of it can be downloaded from http://www.worldbank.org/privatesector/ic/ic_country_report.htm

[12] For the full report of this survey and the questionnaire, see "*Algérie: enquête d'image auprès d'investisseurs étrangers potentiels*" (MNSIF/FIAS, 2003).

[13] Note that we have combined responses related to *access* to credit to those related to the *cost* of credit. Interest rates have recently been low in Algeria, and these two issues are often mixed. Access to credit is clearly the most cited constraint between the two (28.0 percent), so the ranking of constraints is not affected by combining these.

administration.

Figure 4 Most severe obstacles to doing business



Other issues are mentioned as representing "severe obstacles"[14] to businesses, but they are not cited as often as *the* most important constraints. These include *the administration*, *public services* and *the infrastructure; the judiciary;* and *access to information*. Some of these are in fact cross-cutting themes that are at the heart of the priority problems identified above. Given the dominant role of the public sector and the administration in the management and allocation of resources in Algeria, complaints about the credit and land markets, as well as complaints about corruption and unfair competition, are in fact partly directed at the administrations in charge. Similarly, the weaknesses in the judiciary and the poor access to market and legal information, are among the main causes of the poor functioning of the credit market, as well as of the development of the informal sector and noncompetitive markets.

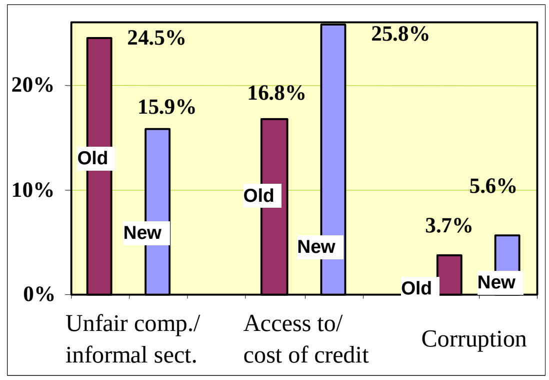
Comparing these results to a similar study conducted in 1998[15], there appears, overall, to have been a recent shift over the past years from constraints resulting from an economy of *shortages*[16], towards one of constraints to *growth* (for example, almost 40 percent of firms in the sample, claim to be searching for industrial land to expand their businesses), which probably reflects regained optimism among investors, but still calls for urgent and deep structural reforms to reduce these constraints.

Not surprisingly, firms of different types cope differently with the investment climate. More interestingly, they differ not only on the *extent* of the constraints they face, as we will illustrate in the sections below, but also in the *ranking* of constraints. For example the 'old' private sector[17] that has grown during the centrally planned era or during the years of burgeoning reforms of the 1980s, reports the constraints with different intensity than the more recently created enterprises. In

[14] The highest in a scale from 0 to 5.
[15] See "Algeria Private Sector Development Strategy Note", Green cover report, the World Bank, 1999.
[16] One main issue identified in the previous work was *access to inputs.*
[17] 'old' is subjectively defined as a firm created before 1990, a year often mentioned as a turning point in Algeria's transition to the market. This rule divides the sample roughly into two, and the results are robust to different cuts (ex. 1988 or 1992).

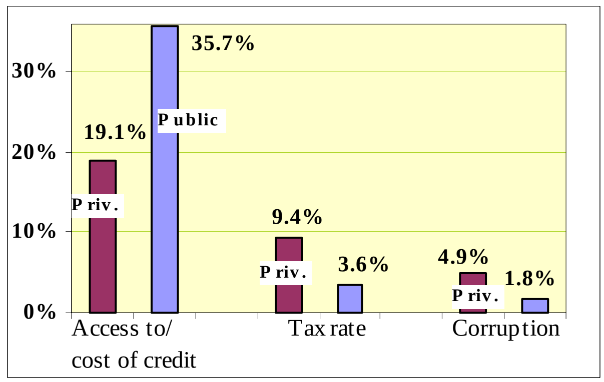
particular, *"old" firms complain proportionally more than "new" firms about unfair competition and the informal sector*. This probably reflects that part of these complaints are just about the rise of a more competitive environment than what was experienced during the early years of the reforms. *"Old" firms also complain relatively less about problems of access to credit and corruption issues*. These interesting results, which are reinforced by the more detailed evidence in the sections below, resonate in the policy debates among a divided private sector in Algeria and reflect the complex political economy of reforms in this country[18].

Figure 5: Most severe obstacles to business: "old" and "new" firms



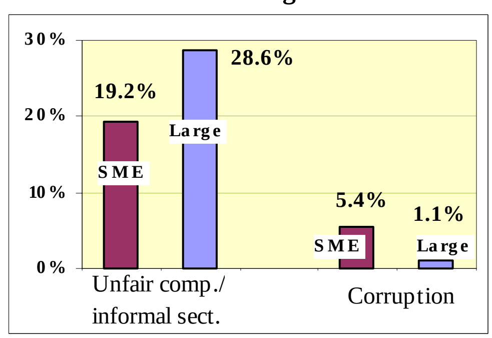
Differences in perception and experience with the investment climate also exist between private and public firms, as well as between SMEs and larger firms[19]. *Public firms mention much more often the problem of access or cost of credit as their most severe constraints* (36 percent of public firms, compared to 19 percent of private firms). This probably reflects recent improvements in the independence of public banks which dominate the Algerian financial sector, and which seem to be allocating credit on a more commercial basis, shifting from their traditional SOE clients to the private sector. More evidence on this important issue will be provided in section II.2a. On the other hand, *private firms complain more about the level of the tax rate* (tax evasion is high and only prevails in the private sector), *and are more concerned with corruption* (the later seems to affect proportionally more smaller firms, which are usually private).

Figure 6: Most severe obstacles to business: private and public firms



Interestingly, *larger firms of more than 100 employees complain much more about unfair competition or the informal sector* (29 percent rank it as *the most severe* obstacle), than do SMEs of less than 50 employees (19 percent). Part of the story may be that larger firms, as much as "older" firms, are probably facing increased competition from SMEs – *new* competition they may perceive as unfair or dominated by the informal sector.

Figure 7: Most severe obstacles to business: SMEs and large firms



The sections to come will, to a certain extent, reflect the hierarchy of constraints illustrated above, with a

[18] Many private business associations coexist in Algeria – including an association of "young" entrepreneurs, and they are often unable to stand united in the (already limited) public private dialogue.

[19] These differences are all independent from each other and are robust to more careful analysis. See AnnexIII.2 for the results of ordinary probit regressions that control for sectors and regions, and which include all three of the dividing variables: old and new, public and private , and small and large.

closer look at cross-cutting themes like the administration and public services, governance, as well as infrastructure. For each area, we will present: i) a short overview of the main issues at hand; ii) evidence of the extent of constraints, with particular emphasis on how the investment climate affects differently different types of firms, depending on size, ownership structure, age and location; and iii) a short summary of the main reform challenges in that area, which is detailed in the policy matrices in chapter III.

II.2 A CLOSER LOOK AT THE MAIN CONSTRAINTS

It's not just perception: quantifying how much a poor business environment hurts

II.2a Access to Finance

MAIN DIAGNOSTIC AND INSTITUTIONAL ISSUES

While much progress has been achieved over the past decade[20], including the entry of many small private and foreign banks, Algeria's financial sector is still largely dominated by the state. The seven public banks compose 90 percent of the banking assets. Access to credit, including short-term working capital finance, is difficult and time consuming. Leasing, factoring, venture capital and export financing instruments are all undeveloped. State-owned banks – the only ones with a large enough network to service SMEs, the bulk of the enterprise sector in Algeria – are bureaucratic, not business-friendly and lack modern information and payment systems. Their staff is poorly qualified in modern lending techniques and project risk and return assessment. They also have little incentive to take responsibilities or manage risk – partly because of bureaucratic human resource management, as well as explicit or implicit constraints imposed by their State shareholder[21]. Decision processes in the public banks are also complex and highly centralized. Finally, they suffer from a long-lived tradition of State intervention in credit allocation. Although systematic credit to SOEs seem to have significantly diminished in recent years, these practices necessarily have lasting impact on the way business is conducted in banks.

The structural problems of the banking sector explain part of the poor functioning of the enterprise credit market. The borrowers' side shares the blame as well, as the poor overall business environment affects the banks capacity to actively invest in profitable projects. The following issues are particularly constraining for bankers:

- *Complete lack of reliable market information*. There are frequent episodes of "herding" in the Algerian credit market, where both bankers and many investors over-invest in a few activities, because sectoral information is lacking and investment decisions are often based on imitation.
- *Underdevelopment of the risk and credit information system* (the "centrale des risques" and "centrale des impayés" of the Central Bank are still in development).
- *On the demand side, most SMEs lack qualified financial managers*, and there is a tradition of secrecy among family owned firms. Most often, firms under-report sales

[20] A defining event was the passage of the Law on Money and Credit in 1990, which granted central bank autonomy, introduced transparent rules in treasury and central bank relations, and stipulated non-discriminatory commercial bank financing of public and private enterprises.

[21] One notable implicit constraint is that managers of branches of the public banks can be charged of "wasting public resources" if a loan goes unpaid. Number of bank managers have indeed been convicted over the nineties of corruption charges, leading to the current situation of extreme risk aversion.

(section II.2e) and have no certified balance sheets, which self-select them out of the formal credit banking market.

- *The judicial system suffers from major deficiencies* (section II.2d), which lower the value of collateral or guaranties given to bankers, in case of default. In particular, the system: i) it is very slow; ii) most judges are not trained in commercial matters and the ongoing re-training program of the Ministry of Justice needs to be scaled-up; iii) judges are said to systematically take the side of debtors; and finally, iv) there are no alternative dispute mechanisms and just a few separate commercial courts.
- Inefficiencies in the land and housing markets (in particular issues in titling and property rights) trickle down to the credit market, as many credit-worthy SMEs which own assets that could be used as collateral cannot do so.

SURVEY EVIDENCE

Access to credit. Firms were asked about their sources of financing of both working capital and investments over the past 3 years. On average, *only 10.9 percent of working capital and 15.7 percent of investments were financed by bank credit.* Almost 74 percent of all financing came from reinvested profits. As expected, *things are worst for small firms of less than 20 employees: banks financed only 7.3 percent and 13.0 percent, on average, of their working capital and investments*, respectively (compared to 13.3 and 29.2 percent, respectively, for *large* firms of more than 100 employees[22]). Also, only 23.1 percent of small firms have overdraft facilities with their banks, compared to 69.4 percent for large private firms.

Comparing *public* and *private* enterprises of similar large size, we found *that public enterprises made less use of bank credit than large private firms* (for working capital, only 11 versus 16 percent for private firms; and 23.1 versus 34.2 percent, for investments). This confirms other evidence that over the recent years, the 'performance contracts' between the State and public banks may have had the positive effect of reducing preferential credit allocation to public enterprises, and the banks may be making credit decisions on a more commercial basis, shifting away from their traditional SOE clients, to private ones. This is also evidenced by the share of firms which have overdraft facilities or credit lines with their banks: *thirty-seven percent of public firms have overdraft facilities compared to 69.4 percent for large private firms*[23].

Independently from size or type of ownership[24], it is also interesting to note that the age of the firm matters in its ability to access credit. *"Old" firms, created before 1990, seem to have better access to credit on all measures, compared to "new" firms created after 1990.* Forty-four percent of "old" firms have overdraft facilities (versus 31.4 percent for more recently created firms) and banks finance 13.7 percent and 18.3 percent of their working capital and investments, respectively (versus 7.6 percent and 12.9 percent for "new" firms, respectively). Part of the explanation clearly lies in the trust that older firms have built-up in their relations with bankers, but it also reflects on the lack of dynamism and competition in the banking sector, notwithstanding governance issues.

[22] From here on, "small firms" will designate firms with number of permanent employees between 5 and 19, and "large firms", those with 100 or more.

[23] These figures are for firms of more than 100 employees only, as most SOEs are large, we need to compare them with equally large private firms.

[24] This result is robust to careful analysis. See tables Annex III.2 for the results of regressions of the share of bank credit in investments or working capital, on a dummy variable for firms that have been created before 1990. These regressions control for firm size, sector, Wilaya, firm ownership and indebtness, and find a statistically significant (at the 1 percent level of confidence) and positive coefficient on the "old" dummy variable.

These averages over the past three years do not necessarily mean that credit is *rationed* among beneficiaries. It simply reflects the striking fact that, over that time, among the random sample of 562 firms, about *72 percent did not have access to bank credit to finance either their working capital or investment needs*. In fact, the number of months since the last bank loan was approved averages 22.1 months in the sample. *It is worst for small firms: 81 percent of them had no access to bank financing over the last three years.*

Among those which *had* access to one or more bank loans during that time period, the bank financed, on average, 37.6 percent of their working capital needs and 59.8 percent of their investment needs. Although variations between small and large firms (as well as between old and new firms) are still prevalent among these, the magnitudes of these differences are relatively smaller than in the whole sample of firms[25]. The problem is one of *entering* the credit market and establishing a track record with the bank, rather than one of credit rationing among bankable projects.

Figure 8: Sources of financing of working capital

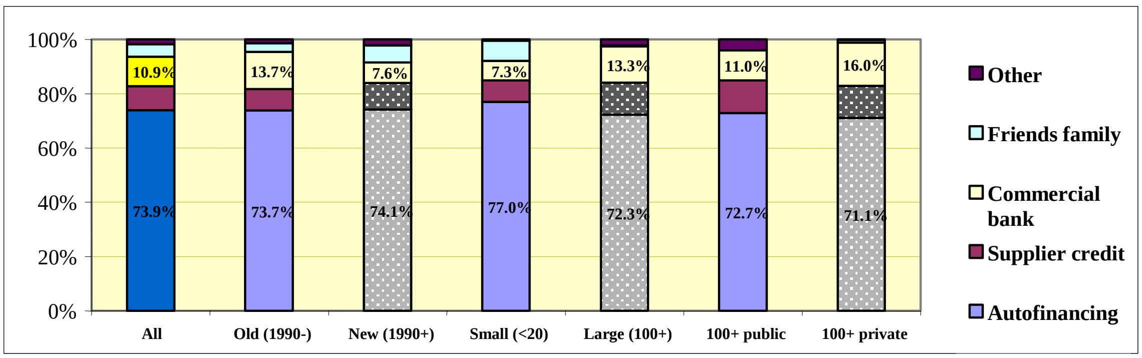
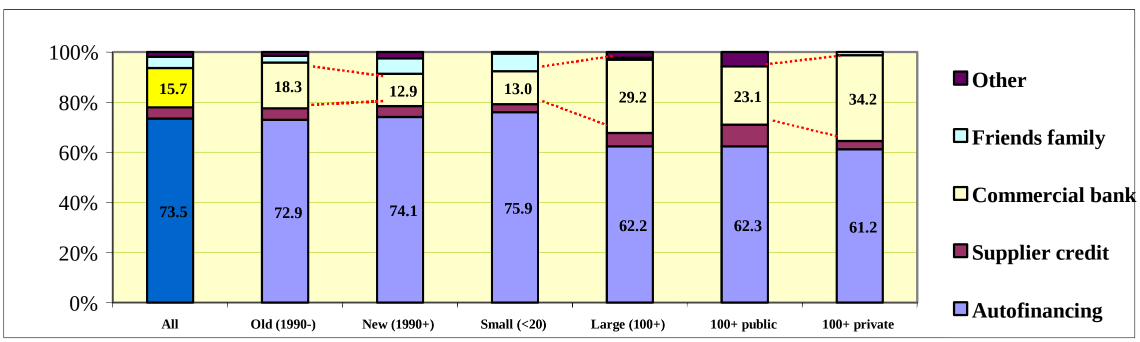


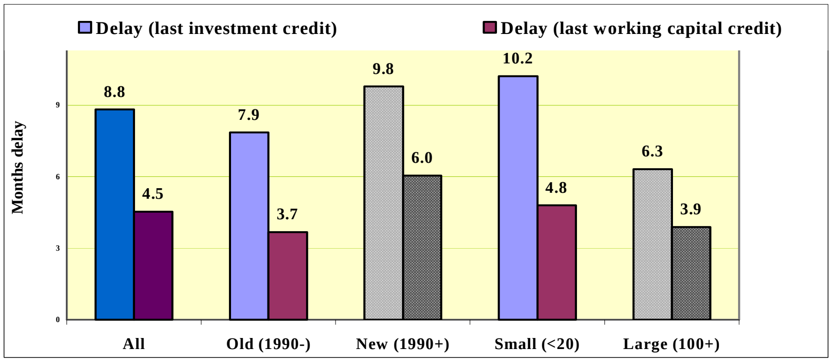
Figure 9: Sources of financing of investments



[25] This last point is evidence that the issue is not only about small firms or more recently established firms having less *capacity* to present meaningful business plans, but probably more one of *reputation* and *relation* with bankers.

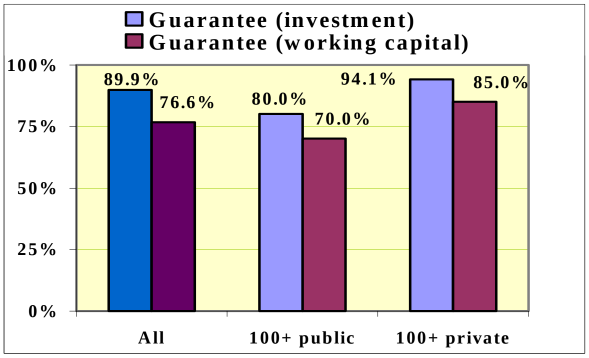
Delays in accessing credit. Not only is it hard to obtain credit, but it takes an inordinate amount of time to get the approval decision by the bank. Four and a half months on average for getting a loan to finance working capital, and 8.8 months to obtain an investment loan (10.2 months for small firms). The differences between small and large firms, and "old" and "new" firms are significant and of the same sign as other financial indicators.

Figure 10: Delays in obtaining last credit (months)



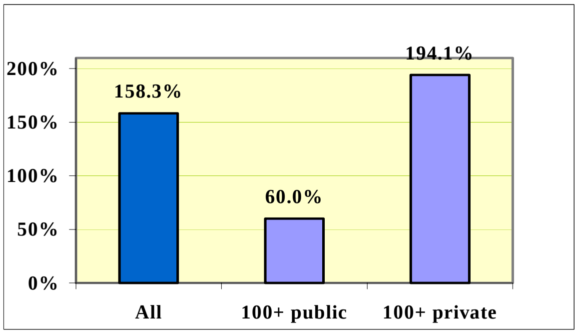
Collateral requirements. Another important reason that excludes many firms, in particular SMEs, from the credit market is the extent of collateral required as guarantee. Ninety percent of firms that have last borrowed for investment, and 76.6 percent of those who last borrowed to finance their working capital needs, were required to provide some sort of collateral, most often land or buildings.

Figure 11: Percentage of firms that were required collateral



Not surprisingly, and despite the "contrats de performance" between the State and the banks, it seems that *public firms are still expected to be bailed out by the Treasury in case of default*. When comparing large public and private firms, 80 percent of investment loans of public enterprises (respectively 70 percent of working capital loans) required collateral, compared to 94.1 percent for private firms (respectively 85 percent for working capital loans). This is also evidenced by the average size of the *collateral required as a percentage of the investment loan amount: 60 percent for large public firms compared to a high 194.1 percent for large private firms, on average*[26].

Figure 12: Collateral required (percent of loan value)



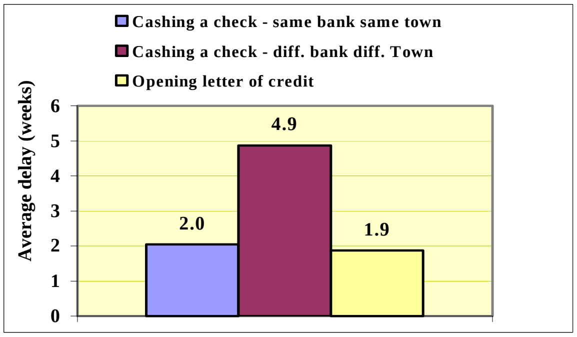
While the relatively small amount for the public sector reflects that the State (sole) shareholder acts as a credible guarantee to bankers, the 194.1 percent average value of collateral required for large private firms (the value is *202 percent, on average, for small firms)* probably reflects the inefficiencies of the judicial system. Because of difficulties in enforcing collateral collection,

[26] Public firms seem to have better terms on the investment loans as well: 60 months on average for large SOEs, compared to 48.2 months on average for large private firms. The average loan term for small firms is even lower: 34.3 months. These differences are partly due to the fact that, contrary to most private firms, SOEs have "audited" financial statements which help in credit evaluation.

bankers give little value to the likelihood of being able to collect the collateral from their defaulters, especially when the latter is in the form of land or premises, as is mostly the case.

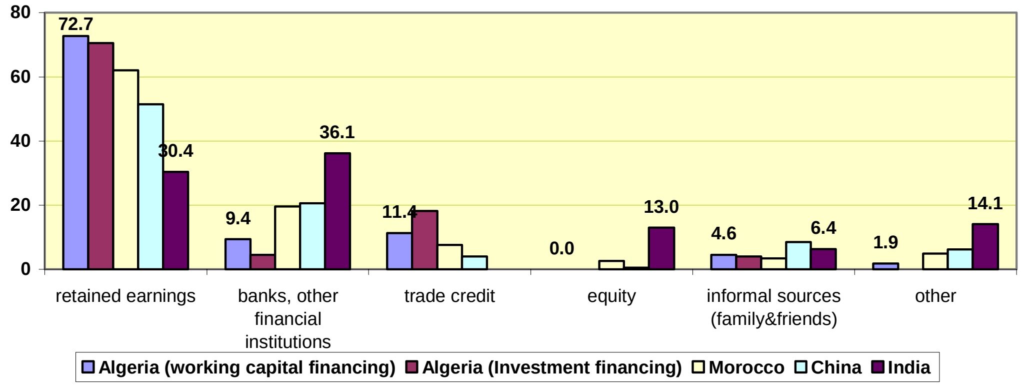
Delays in common banking operations. Another weakness of the Algerian banking system is its poor infrastructure. It takes on average 2 weeks to cash a check between two branches of the same bank in the same town, and 4.9 weeks to cash a check from two different banks in two different towns. It also takes, on average, 1.9 weeks to open a letter of credit. At the time this survey was conducted, the central bank of Algeria launched, with the support of the World Bank, a new payment system which should significantly reduce these time lags.

Figure 13: Banking operations delays (weeks)



International perspective: access to finance. With around 72 percent autofinancing, compared to 62 percent in Morocco, 52 percent in China and 30 percent in India, firms in Algeria finance a greater share of their working capital or investments using retained earnings.

Figure 14: Firms' Source of Finance – Selected Countries



Source: World Bank firm surveys

POLICY RECOMMENDATIONS: SUMMARY

The diagnostic evidenced above reflects the poor functioning of the credit market and calls for accelerating the reform of the financial sector as a whole, as well as the environment of banks[27]. More precisely, and focusing only on those issues that are directly relevant to enterprise credit[28], there is a need to:

- *Accelerate the banking sector reform.* This includes the restructuring of the public banks in terms of organization and decision making processes, human resources and incentive schemes,

[27] On the borrowers' side, policy interventions to improve the ability of SMEs to prepare bankable business plans and loan applications, could include well designed, demand-driven schemes - like vouchers or matching grants – to foster the development of a market for affordable consulting and training services for small firms.

[28] The much needed reform of the financial sector of course includes other important aspects that are not addressed here: resource mobilization, banking supervision, prudential policies, and banking competition (in particular to limit oligopolistic behavior by public banks).

information systems, and credit and risk management techniques. To be successful, full *operational independence* of the banks from their State shareholder needs to be insured, in particular in senior appointments. Privatizing one bank in 2003 and preparing for a second privatization for the coming years should bring in the Algerian financial scene an international bank, in a scale large enough to increase competition and improve banking services overall.

- *Speed up the reform of the legal framework and of the judicial system* (collateral legislation, bankruptcy, alternative dispute resolution, judges training, etc) to allow banks to lend without having to require excessive collateral.
- *Strengthen the technical infrastructure of the financial sector.* The inter-bank payments system as well as the intra-bank clearing and settlement system need to be modernized. Public banks need to upgrade their information systems to international standards.
- *Develop an economic information system and credit bureaus* to facilitate better knowledge on credit applicants and better assessment of credit risk.
- *Develop new financing instruments*: *Export financing*, through participation in political risk insurance. and the development of pre-shipment and general export credit guarantee schemes. *Leasing, factoring and equity capital funds* would likewise be crucial as these instruments can be of great benefit to SMEs with a small capital base and limited collateral[29]. Finally, *the stock market* should be developed.

II.2b Access to industrial land

MAIN DIAGNOSTIC AND INSTITUTIONAL ISSUES

The issue of access to industrial real estate is constantly mentioned by entrepreneurs and Government officials as an overwhelming (and increasingly severe) constraint to business development. There is a large unsatisfied demand for industrial land. At the same time, around half of equipped land is unused, either because it belongs to bankrupt public enterprises or because private owners are holding on to them to speculate. Initial land distribution is administratively controlled. There is little secondary trading. The market is not unified, with a large – albeit diminishing – price differential between publicly and privately-owned land that fosters speculation and corruption. Less than 50 percent of industrial land is properly titled. Lastly, existing industrial parks and activity areas are publicly managed and unable to recover costs. Consequently, the premises are poorly equipped in infrastructure and mismanaged.

The land issue is an extremely complex and politically charged issue, where many vested interests are at work to block reform. It is quite symbolic of the sort of structural adjustment that Algeria will need to undergo to make further progress in moving from a centrally planned to a market-based economy.

[29] Leasing activities have recently developed in Algeria, but some regulatory constraints remain, in particular in terms of inadequate provisioning, amortization and tax regulations.

To understand the present situation, one needs to be aware of the historical background. Industrial parks were created on publicly owned land in the 70s and early 80s to accommodate the new state-owned industries that were then at the vanguard of the Government's development strategy. A number of industrial parks were established in areas that were chosen based on political rather than economic criteria. Furthermore, many plots were oversized and designed regardless of actual needs. In many cases, the ownership of land was unclear and two thirds of it was not properly surveyed and titled at independence time.

Another issue is the complexity and lack of transparency of the regulatory and institutional arrangements. Responsibility for the ownership, development, management and rehabilitation of industrial land is shared among too many public organizations.

As a consequence of the issues listed above, the whole process of acquiring industrial land is extremely lengthy, costly and uncertain. Because of the dominant role of administrative allocation, corruption is said to be widespread. The typical story in box 1 illustrates a widespread example of an investor who purchased expensive equipment and had it lying idle for seven years because he could not obtain adequate land and premises, despite the fact that large plots around him were, and remain until today, empty.

Box 1: Lack of access to industrial land and inability to invest and grow: *Textibel*, one example among many

Textibel, a socks factory, has been in the garments business since 1975. In 1989, its founders opened a new factory in El-Achour, a suburb in Algiers. In 1992, as the company's business is growing, they plan to invest into new product lines. At the time, *Textibel* is surrounded by unutilized industrial plots. They apply to the local land administration to buy or get a concession on this area or any other suitable location. At the same time, they're able to obtain a loan under a bilateral German credit line, and purchase new equipment from Germany.

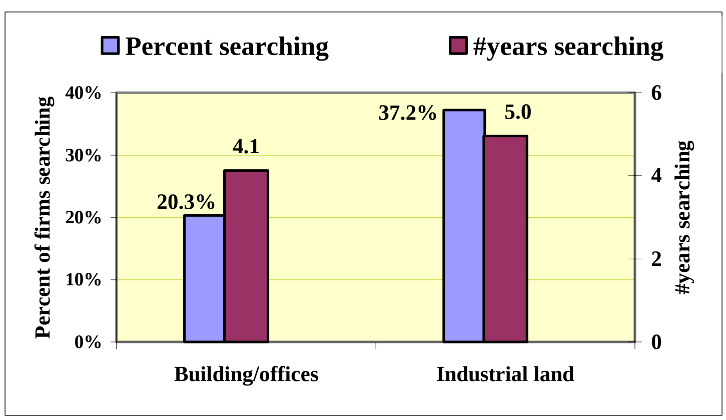
Ten years later, *Textibel* is in a critical situation. It has not been able to secure the necessary plot of industrial land, while the land around the factory remains empty and unutilized (it was attributed years ago to other investors, but no investment has materialized yet). The new equipment still lies in its original packaging, leaving almost no space to walk around the factory. Growing import competition has forced *Textibel* to reduce its workforce by 80 percent. If it had been realized, the failed 1992 investment into new product lines may have allowed it to diversify and better absorb the import competition shock.

Today, *Textibel* is *de facto* out of business, the loan has not been repaid and its equipment has depleted.

SURVEY EVIDENCE

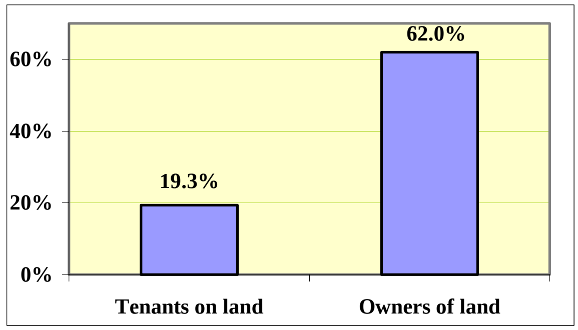
Out of the 562 firms surveyed, 37.2 percent are searching for an industrial land plot to invest in a new venture or to expand their business. On average, they have been searching for 5 years (Figure 15). Difficulty of access to industrial land is ranked among the top five issues representing a "*major*" or "*severe*" constraint to business development. Almost 13 percent of firms mention it as *the* most severe obstacle to the development of their business. While pointing to a major bottleneck, these numbers also

Figure 15: Looking for land or offices
(percent of firms, # years searching)



indicate a sense of business confidence, and probably regained optimism in the economic outlook of the country. It also gives a sense of the extent of increased investment that would probably materialize should the availability of land increase. Although more related to the housing market issues which are not addressed here, a parallel issue to the one of availability of industrial land is the availability of business offices or commercial buildings. The institutional features constraining the development of the housing market in Algeria – in particular business premises – are very similar, but on a larger scale, to the ones limiting the supply of industrial land. *Twenty percent of the firms interviewed have been searching for office space for more than 4 years.*

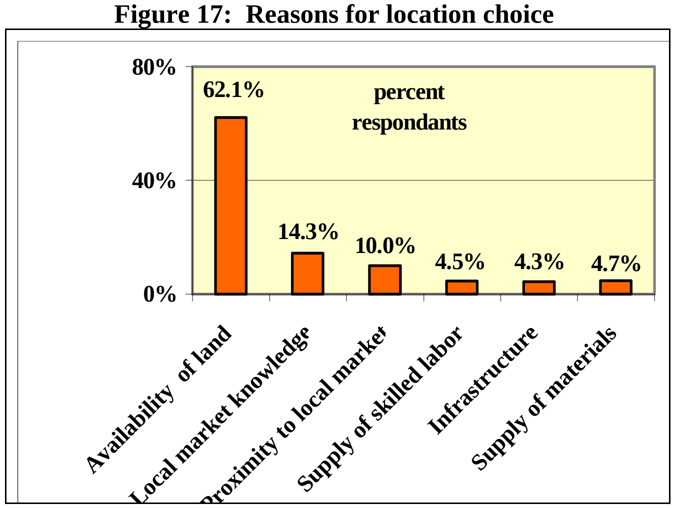
Figure 16: Land ownership



As explained above, the shortage of land is due in part to inadequate titling and non protection of property rights. This issue also affects the slow development of the rental market for both land and housing. Despite the large inefficient freezing of resources that it implies, the majority of firms interviewed (62 percent) own their land and only 19.3 percent rent it or have a concession on it (Figure 16).

As a consequence of this scarcity of land, investors do not choose where they will locate their firm, but rather set it up wherever they find a plot (Figure 17). It is also often the case that the size of the plot that they find is smaller than their needs and, consequently, they are forced to reduce their investment plan.

Figure 17: Reasons for location choice



POLICY RECOMMENDATIONS: SUMMARY

The scarcity of industrial land appears to be artificial, considering that more than half of existing plots are unused. Putting those plots on the market may well satisfy demand, at least in the short run. This would also result in lower prices of land and thus remove a major constraint to investment. The market needs to be made transparent, through a wide dissemination of market information and regulations. It needs to be properly regulated, under a much simplified institutional framework. Property rights need to be protected.

Private operators must be encouraged to participate at all stages of the market development. As part of its overall urban development strategy, the State should identify urban areas to be developed and invest in the primary development of raw land (major roads, principal connections to the energy and water networks, etc.[30]). It should then divide the zones into large slots to be conceded or sold to private promoters[31] who would be in charge of all the later stages of land development (secondary

[30] All of these public works, while under the responsibility of the State, should preferably be outsourced or conceded to private operators via well designed PPI schemes.

[31] In order to promote competition and to ensure competitive pricing, large zones should be divided in more than two slots to be conceded or sold to different private promoters. In parallel, careful market regulation and

roads, connections to the energy and water networks, rehabilitation of existing industrial zones, commercialization, management, fee collection, maintenance etc).

To meet these objectives, it is recommended that the Government's strategy should focus on the following: (i) increasing the supply of industrial land that is free and available, but either untitled or in the process of being legally recovered by the State, (ii) reforming the institutional and regulatory framework; and (iii) fostering private participation in development, marketing and management of industrial parks and activity areas. The policy matrix in chapter III includes a detailed list of actions to achieve these objectives.

II.2c Access to public services and infrastructure

MAIN DIAGNOSTIC AND INSTITUTIONAL ISSUES

The positive change in Government policy toward the private sector did not translate yet into significant change in the attitude of the public administration. Entrepreneurs still face unfriendly bureaucratic behavior, red tape, cumbersome and opaque regulations and endless delays to obtain clearances, authorizations, and access to public services. Although it is hard to assess its extent, corruption is said to be rife, as evidenced by the proportion of entrepreneurs who rank it as one of the main three constraints to doing business (section II.1).

Barriers are pervasive in all areas of business activity. Most frequently mentioned are the procedures to: clearing imported goods through customs; obtaining a building permit; and registering an enterprise. Tax harassment is also frequently mentioned.

Firms often have poor access to services rendered by public infrastructure utilities, and the quality is reportedly low. The services considered to pose the most significant problems are connections to, and maintenance of fixed-line telecommunications, access to water supply, harbor services and management of industrial parks. Transportation or access to energy are not regarded as major problems.

SURVEY EVIDENCE

Public services and the administration. Although there has been some progress over the years, the Algerian administration is far from being business friendly. About 20 percent of enterprises perceive public services as being either "inefficient" or totally "inefficient"[32]. Foreign investors equally complain about the bureaucracy. Administrative delays can only discourage investments: *it takes 18 steps and 93 days on average to register a firm*[33]*, 130 days to get a construction permit, 35 days for other licenses or permits* (Figure 18). Ninety men-days were spent on average in 2001 among the firms sampled, only dealing with the administration.

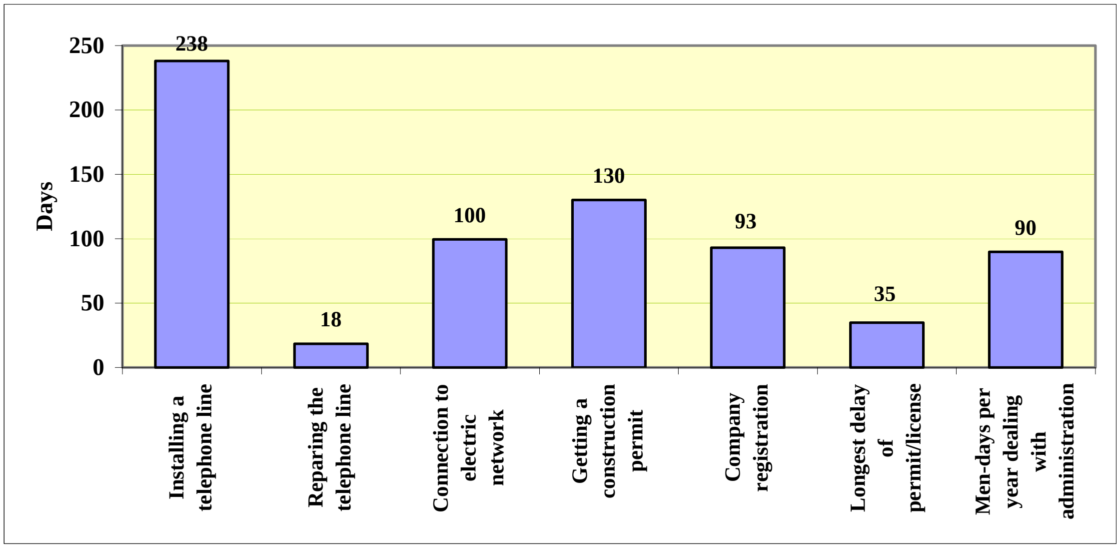
---

supervision institutions should be put in place to prohibit collusive practices

[32] The figure is only 11 percent for public managers.

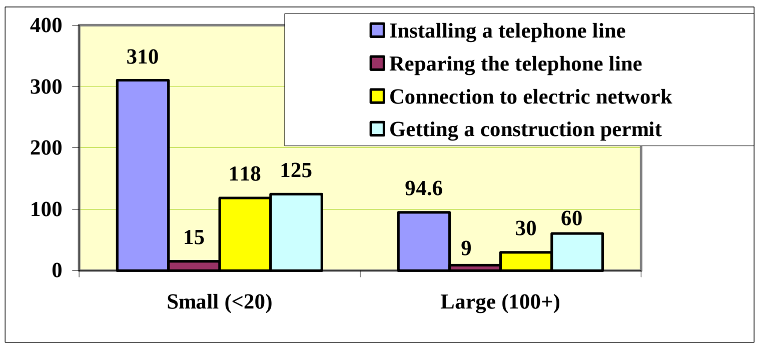
[33] Note that, in principle, the 18 steps should take about 29 days to be completed, as evidenced in the *Doing Business Database*, http://rru.worldbank.org/DoingBusiness, World Bank, 2003.

Figure 18: Delays in administrative and public services



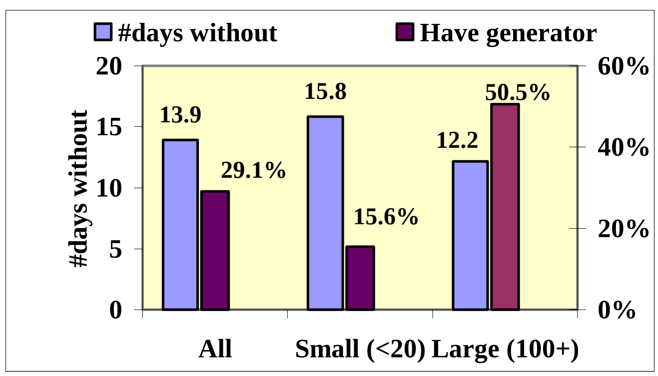
Again, *small* firms suffer proportionally more than larger firms from delays in accessing public services or infrastructure. The differences are high and significant: *310 days for a small firm to install a telephone line compared to 95 days for large firms; 118 days to get a connection to the electric grid, versus 30 days for large firms; 125 days to get a construction permit, versus 60 days for large firms.*

Figure 19: Administrative delays: small and big firms



Electricity. Although the coverage of the electricity network in Algeria is among the highest in the region, quality is a problem. *The frequency of power outages was close to 14 days, on average during 2001*. *Small* firms are often located outside of the industrial zones and therefore suffer slightly more (16 days of interruption on average) than *large* firms (12 days) or *public* firms (10 days)[34]. Another indicator of the average quality of the network, is the fact that *29.1 percent of firms own a power generator* (compared to 17 percent in

Figure 20: Frequency of electric power outages



[34] These figures closely match the estimates of the public electric provider (Sonelgaz): their Customers Relations Department conduct regular surveys of power outages among their corporate clients. The latest one indicated an average yearly frequency of 15.3 days.

Morocco, 69 percent in India and 16 percent in China). These are costly investments, so only 15.6 percent of small firms have one – despite the fact that they face more frequent outages than larger firms – compared to 50.5 percent of large firms.

Water. Access to water is notoriously problematic in Algeria. Most urban centers suffer from severe shortages and access to potable water is rationed to a few hours every other day. Firms are of course equally affected with, on average, *almost 42 days without water supply in 2001*. As a consequence, *close to 33 percent have their own water well*(compared to 29 percent in Morocco, 51 percent in India and 16 percent in China). Again, *small* firms suffer proportionally more than *larger* ones from infrastructure deficiencies: Twenty-five percent of them have water wells, compared to 50 percent for *large* firms, and 50 days without water in 2001, compared to 15 days for *large* firms.

Figure 21: Access to water

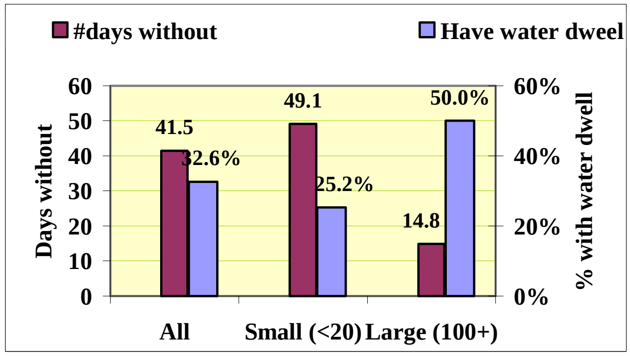
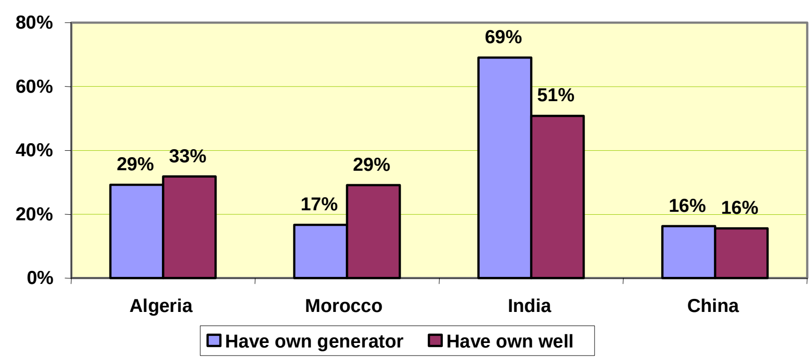


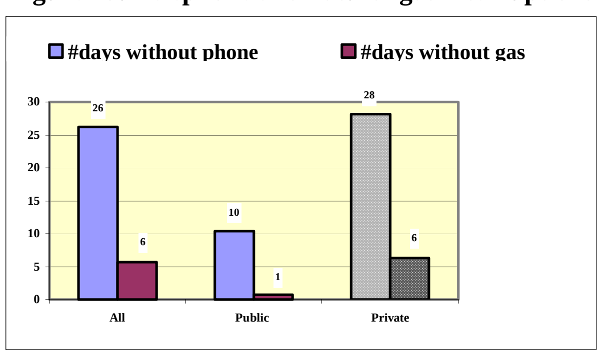
Figure 22: Share of firms with their own generator/well - International perspective



Source: World Bank Firm Surveys

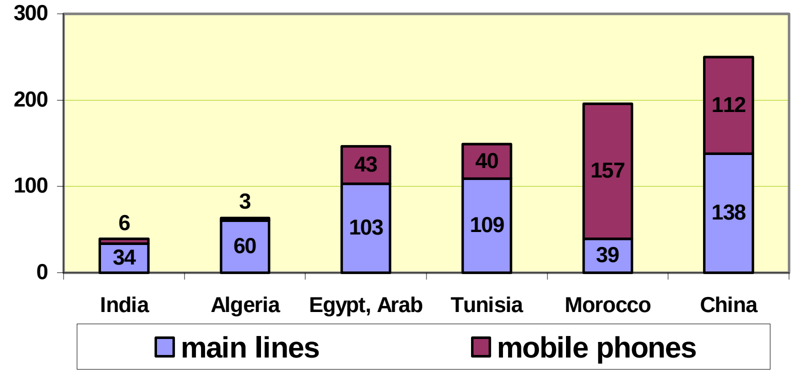
Natural gas. Supply of natural gas is of good quality, firms reported only six interruptions on average during 2001 (only one among public firms). However, connection to the grid takes 134 days on average.

Figure 23: Telephone and natural gas interruptions



Telecommunications. The density of the telecommunication network in Algeria is low, in regard to the country's income and resources, and has not changed much over the last decade. Moreover, Algeria has only recently embraced the mobile technology, and the density is relatively low compared to other countries. This technology has enabled similar countries to leapfrog Algeria in its telecom infrastructure:

Figure 24: Mobile and Main line Telephones per 1000 inhabitants (2001)



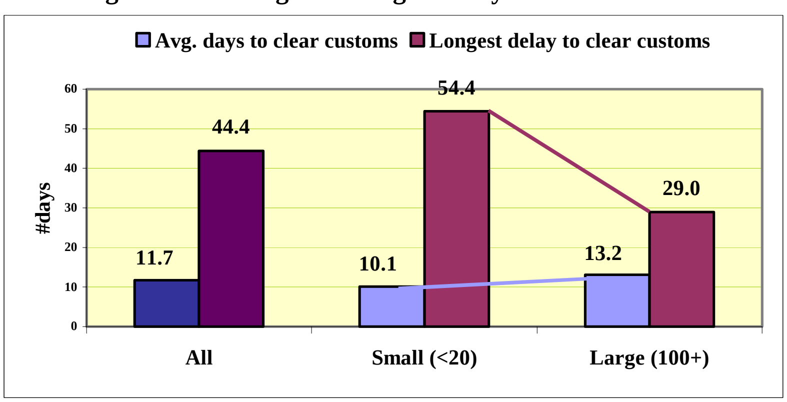
Source: International Telecommunication Union

while the telephone density in Algeria was 32.3 main lines for one thousand inhabitants in 1990, thus, above India's, China's, Morocco's and Egypt's, and just slightly below Tunisia's, the picture has radically changed in 2001.

The number of main lines has less than doubled in Algeria in more than a decade, while mobile density was still small in 2001 (3 per 1000 inhabitants). By comparison and because of the dramatic development of the mobile technology, China, Morocco, Tunisia and Egypt telecom networks are now by far more developed than those of Algeria. *On average in 2001, firms experienced 26 days of main line interruption* (Figure 23). With 10 days of telephone interruption on average, *public* firms have much better access to the public telephone company for repairs. *It takes on average 18 days to repair a telephone line*, and a record *238 days to install a new line* (Figure 18), compared to 12 days in China. However, recent reforms in the sector - including establishing a new legal and regulatory framework, a multi-operator market structure, and a new regulatory authority - should significantly improve these measures and increase the supply of mobile and fixed lines.

Customs. Port operations in Algeria are slow. This is partly due to the inefficiencies of port operators which are all State-owned, but also to the inefficiency of the customs administration, which is currently going through a major reform. During 2001, it took on average *11.7 days to clear imported goods through customs* (compared to 3 in Morocco and 8 in China). On top of this long delay, what is particularly costly for firms is the *variation and unpredictability* of delays. *The average longest delay in 2001 was 44.4 days*, almost four times the average. Although delays for small firms are slightly shorter than for bigger firms[35], this variation of delays is even higher for them, the ratio between the longest and the average delay was 5.4 for small firms, compared to 2.2 for large firms.

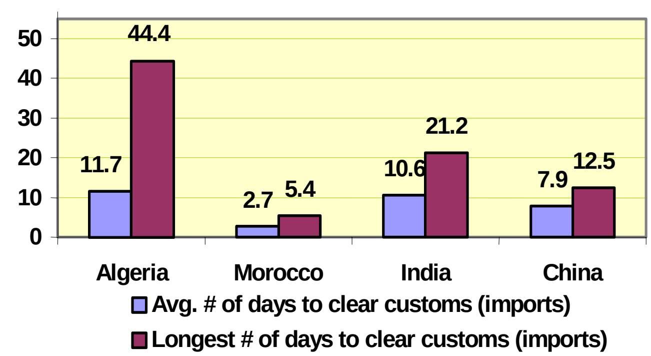
Figure 25: Average and longest delays to clear customs



[35] Probably because they import much smaller quantities.

These long delays are often coupled with corruption practices. Although evidence on this is scarce and should be interpreted with care as response rates to corruption questions are usually very low, the 47 firms (mostly small ones) that have given estimates of informal payments[36], claim that, on average in 2001, *they had to pay 8.7 percent of the value of their imports to customs officials*. A few (12 of them) gave estimates of average bribe payments disbursed in an average import operation: 215,000 DA on average, which is about 1.7 times the GDP per capita.

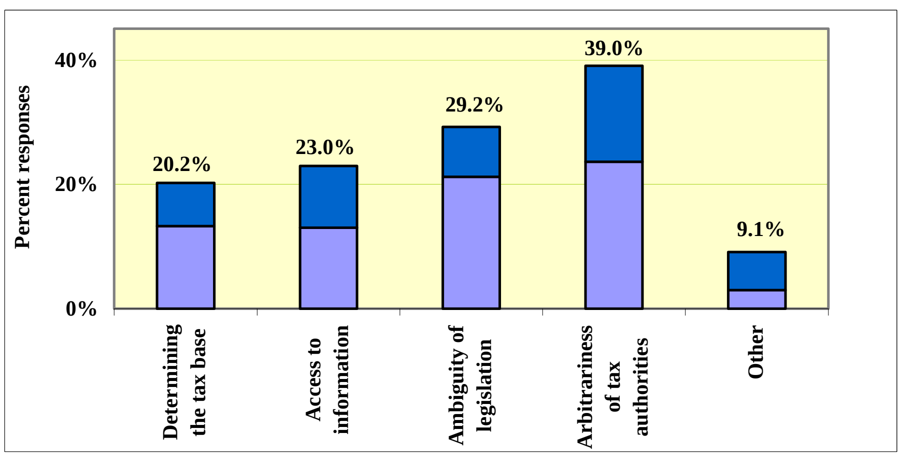
Figure 26: Days to Clear Customs (Imports)



In spite of progress at the harbor of Algiers, port services are still considered an important cause of delay for import operations. Harbors are poorly managed. Productivity is low. Unloading ships and handling goods across the harbor is still a public monopoly. Waiting time prior to be birthed can reach 7 days for ships, and unloading could take as long as another 7 days. Storage areas within harbors are also insufficient.

Tax administration. Tax evasion is widespread in the private sector, despite moderate corporate tax rates. Many enterprises however complain of the tax administration. Together with the tax rate itself, their relation with the tax authorities rank among the top five constraints facing their business. Although corruption is mentioned, the major issue is *the arbitrariness of the tax authorities* (almost 39 percent of firms see it as a *major* to *severe* problem in their dealings with tax issues), which is linked to the corresponding *ambiguity in the legislation* (29.2 percent view it as a *major* to *severe* problem).

Figure 27: Main constraints in dealing with the tax administration



[36] That is 8.3 percent of the 562 sample. The response rate is actually higher, but most gave *zero*-corruption answers that are ignored here, for the sake of *illustrating* the *order of magnitude* of informal transactions rather than giving *exact average* amounts, which can't be estimated (see box 2 below).

Corruption and illegal practices. Corruption appears high in the ranking of constraints. Over six percent of firms mention it as *the* most severe obstacle to their business. Most of these are small firms. After the informal sector, credit, land and tax issues, it is the most cited constraint as either the first, second or third most severe obstacle to businesses. Despite this, response rates to the corruption questions have been low, namely between 5 and 24 percent, depending on the question asked. Some questions that do not relate to corruption *per se*, but rather to illegal or informal behavior, have a higher response rate, ranging between 25 and 50 percent. Because of the care with which these results should be interpreted (box 2), all figures below include the number of observations and response rates in brackets.

Box 2: On the interpretation of survey data on corruption, illegal behavior and informal activities

Not surprisingly, few business managers answered the questions on corruption or illegal behavior, despite the fact that the questions were not directly asked about their own business or experience, but on their view of the extent and amounts of corruption, in general, in their sector of activities (i.e. what they think *others* do, in general, rather than their *own* firm).

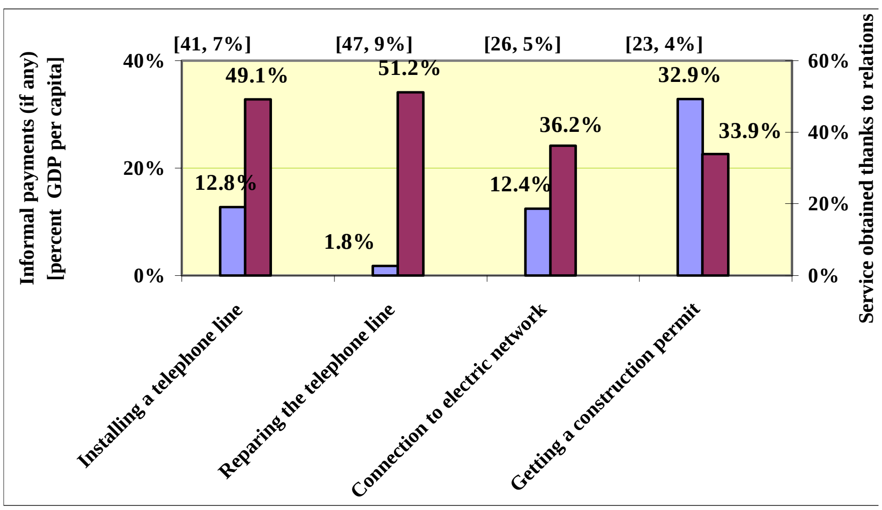
With response rates often below 25 percent, and the sensitivity of the questions, the non-responses as well as the *zero*-corruption responses are likely to be highly biased in directions that can only be guessed. Nothing can be inferred from these answers.

By focusing only on those who have answered positively to the questions, we are able to give a sense of the *magnitude* of the illegal behavior and *typical* amounts involved, when it takes place, but these figures give no information on the extent of corruption or illegal behavior among the business community in its dealing with the administration, nor on the *average* amounts involved. The extent of corruption is best illustrated by how high the issue ranks in the list of constraints mentioned by business owners.

The figure below gives a sense of *the amounts involved in bribes to civil servants or employees of public utilities to "get things done":* around 210 $USD (13 percent of GDP per capita), to get a telephone line installed or to get connected to the electric grid; around 30 $USD (2 percent of GDP per capita) to get a telephone line repaired; and around 540 $USD (33 percent of GDP per capita) to get a construction permit.

Much more often than direct bribes, it is *personal relations in the public administration or the public utility that are widespread in helping get the service done*: 49.1 percent of firms got their telephone line installed thanks to a connection at the public telecom company; 51.2 percent got their line repaired thanks to (probably the same) connection; 36.2 percent also got wired to the electric grid, and 33.9 percent got their construction permit, all thanks to connections.

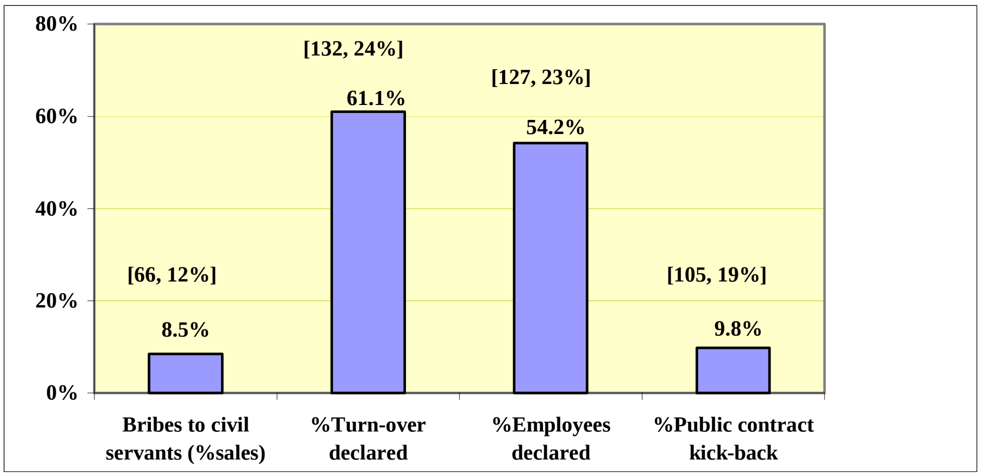
Figure 28: Informal payments (if any), as percent of GDP per capita, and the role of connections in dealing with the administration
[number of observations and response rates in brackets]



The evidence gives a sense that informal payments to public officials, when they happen, can be substantial. About 12 percent of firms have given an estimate of the average percentage of sales spent *every year – 8.5 percent of sales - in illegal payments made to public servants to "get things done"*. Most of these are small private firms, suggesting that *smaller firms are more often subject to extraction of rents by some corrupt public officials.* Also, about 19 percent of firms (mostly small firms, among which the response rate was 49 percent), claim *that the average "kick back" on public works contracts is 9.8 percent.*

The response rates are much higher when asked about *tax evasion* and *unregistered labor*: 24 percent of firms (47 percent of small firms) claim that most firms in their sector declare less than 100 percent (*61.1 percent on average) - of their sales to the tax authorities*. Also, 23 percent of them (48 percent among small firms) claim that *not all employees are formally registered, only 54.2 percent are on average.*

Figure 29: Bribes, « kick-backs », informality and under-reporting



POLICY RECOMMENDATIONS: SUMMARY

Some of these administrative barriers call for a major and urgent effort of simplification, e-enabling of administrations and the successful role-out – and effective functioning of - the newly created one-stop-shop (ANDI). Current efforts at improving access to information should be scaled-up, as should be the ongoing reforms of the judiciary, customs and tax authorities (see policy matrix in chapter III, and the detailed action plan in "*Algeria Private Sector Development Strategy Note*", World Bank 2003).

As an extension to the scope of privatization, special emphasis should be given to further private participation in infrastructure services to mobilize needed capital and to attract management skills needed to address the shortcomings in service delivery mentioned above. Following the opening of air transport, mobile telecommunication and road transport to private operators, the next focus areas where the private sector should be invited to participate should be in the management of the industrial zones, the rehabilitation of their infrastructure, water processing, water and energy distribution, and port and airport services, through both investments and concessions. In parallel, Algeria must strengthen its regulatory capacity to deepen the required private participation in other relevant infrastructure services.

II.2d The judicial system

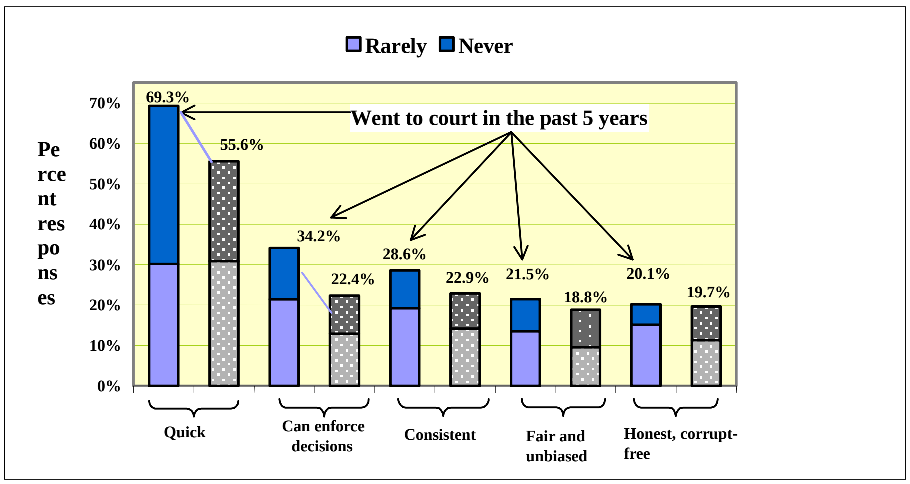
MAIN DIAGNOSTIC AND INSTITUTIONAL ISSUES

The Algerian legal framework is progressively being more attuned to the requirement of a market economy. However, it is far from functioning smoothly because of the shortage of qualified commercial judges and of the lack of understanding, by the business community, of methods that proved successful in other market economies (e.g. collateral legislation; bankruptcy; alternative dispute resolution). Also, there is limited trust within the business community in the impartiality of the judicial system. It is still widely seen as slow, inefficient, costly and best avoided. There are major issues of corruption and governance in general.

SURVEY EVIDENCE

A well functioning judiciary is of course key for businesses. We have shown above the large amounts of collateral that bankers require from their clients, probably because they discount the true value of the guarantees that their clients propose – as it would be too costly and require too much time and efforts to collect these via a court decision. When asked about the functioning of the judicial system on commercial matters, businesses first complain about the *slowness of the courts*. Fifty-six percent of businesses that have *not* gone to court in the past 5 years perceive the Algerian judicial system as being *never* or *rarely* quick in its processing of cases. The views are even worse for those businesses that have experienced it during the past 5 years: 69.3 percent judge it to be *never* or *rarely* quick. Businesses also complain that the judiciary is *never or rarely able to enforce decisions*, 34.2 percent and 22.4 percent for firms that have gone, and that have not gone to court, respectively.

Figure 30: Perception of the judiciary
(Do you think the Algerian judicial system is…?)



One consequence of this is that *most conflicts* (in particular on late payments) *are solved outside the judicial system* (for non payment cases, firms go to court only 5.9 percent of the time, on average). This is particularly the case for *small* firms which go to court only 2.3 percent of the time on average (and solve 93 percent of the cases by private settlements), compared to 10.1 percent of the time for large firms, and 14.1 percent of the time for public firms.

On the other hand, *property rights are judged to be relatively well respected*. Contracts and property are seen as being well protected by the State and the judiciary. Only 15.1 percent of businesses *totally disagree* or *disagree in most cases* with this last statement. Unsurprisingly, small firms seem to feel more vulnerable on this matter, than large firms.

POLICY RECOMMENDATIONS: SUMMARY

Algeria's commercial legal framework requires fundamental reform which would dispense with the legacy of the "socialist era" and place the company at the center of economic activity. In the short-term, there is a need to speed-up the implementation of the judicial reform on commercial matters, in particular the setting-up of independent commercial courts. As important is the need to urgently scale-up the ongoing training program of commercial judges to a much larger number of beneficiaries – in particular in the areas of collateral legislation, bankruptcy laws, and small claim commercial disputes. For the longer-term, Algeria is in need of an ambitious and credible anti-corruption strategy.

II.2e Human resources

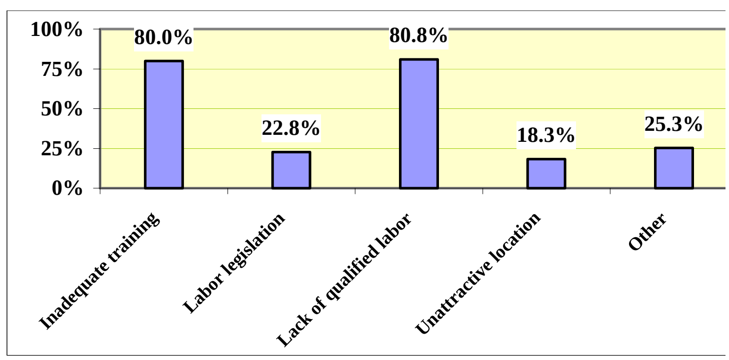
MAIN DIAGNOSTIC AND INSTITUTIONAL ISSUES

The transition from entrepreneurs who created their own enterprises and survived under a planned economy, to managers capable of developing their firms and innovating in the context of a market economy, remains to be achieved. There appears to be a lack of good intermediary staff, such as factory foreman and skilled workers. New expertise required to meet worldwide competition is not easily found on the Algerian labor market. There is a strong demand for training. However, the Algerian education system does not meet enterprises' needs and post-education training and consulting services remain under-developed. Enterprises also suffer from excessively high social security charges (currently at 33.2 percent) and from cumbersome labor regulations.

SURVEY EVIDENCE

Fifty five percent of the firms surveyed mention constraints in recruiting[37]. More than 80 percent of these are due to either the lack of qualified labor or, alternatively, to the fact that training does not respond to their needs. Despite these constraints in finding qualified staff, less than 32 percent provide formal training to their employees. Only large firms – most of them State-owned – provide training to a large extent (62 percent).

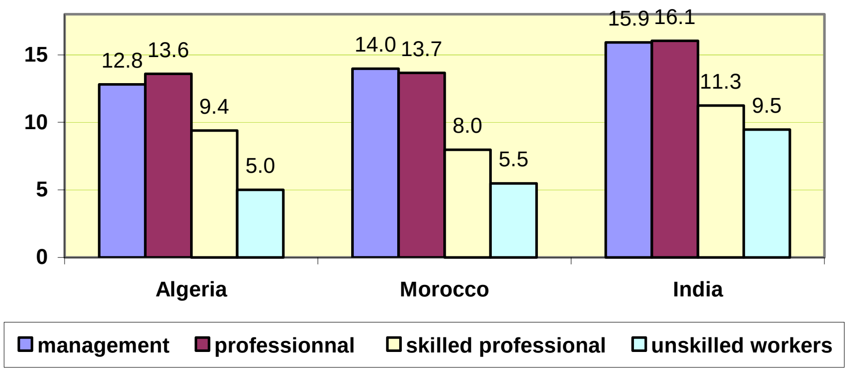
Figure 31: Recruiting issues



[37] This, as much as it is the case for the constraints of access to land, is probably and indicator of a *growth* bottleneck in an economy that is bound to grow, as firms search to hire qualified staff.

International perspective. Figure 32 reports the average number of years of education by occupation in Algeria, Morocco and India in the textile industry. On average, a manager has 12.8 years of education, a professional (with a technical degree) 13.6, a skilled worker 9.4 and an unskilled worker 5 years of education. Those figures are close to the corresponding figures for Morocco, and markedly lower than the average years of education in Indian industry.

Figure 32: Average Number of Years of Education by Occupation (Textile) [38]



Wages and gender. An analysis of wages paid to workers in the survey reveals some interesting although not altogether unexpected results[39]. *Women are paid significantly less than men, with a wage differential of 18% controlling for all other factors*. Returns on education are significant, with each additional year adding approximately 4% to the wage. Other notable effects include the wage differential between the Northern and Southern wilayas (19% lower in the South), higher wages in larger enterprises, and significantly higher wages in the information services sector as well as the construction, chemical/ pharmaceutical, and mechanical/ electrical sectors.

POLICY RECOMMENDATIONS: SUMMARY

In the long-term, the reform of the education system – in particular at secondary and university level – should be geared towards greater adequacy of skills to market demand. More urgent would be the reform of the system of professional training centers – in particular in management, by greater involvement of private sector actors and self-financing mechanisms[40] that would insure training that respond to market needs.

<u>II.2f Competition and markets openness</u>

MAIN DIAGNOSTIC AND INSTITUTIONAL ISSUES

The business community cites three types of un-competitive behavior. First, competition from the informal sector, which is mentioned almost as often as 'credit' as being *the* most severe constraint to business development (see section II.1) – especially by older firms managers. Second, competition from importers that are able to smuggle large quantities of consumer goods without paying import duties. Third, the rise of new private import monopolies that appear to have replaced the old state trade monopolies. Often mentioned by private entrepreneurs is the lack of access to public procurement contracts.

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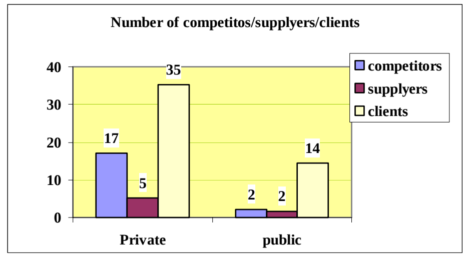
[38] Note: number of observations for Algeria is only 28.
[39] The regression analysis is detailed in Annex III.2. These results are robust to various econometric tests and controls, all differences are statistically significant at the 5 percent level.
[40] or carefully designed subsidy mechanisms like matching grants or voucher schemes for SMEs.

SURVEY EVIDENCE

In addition to the extent of informal labor and underreporting presented above, an indication of the competitive environment is the average number of competitors, clients and suppliers, that each firm deals with in the market. The interesting fact is the difference between private and public firms. With much less competitors, suppliers and clients; state-owned enterprises clearly seem to operate in either niches, oligopolistic markets, or protected markets with little competition. Moreover, with 93 days on average to create a business (Figure 18), entry barriers are high.

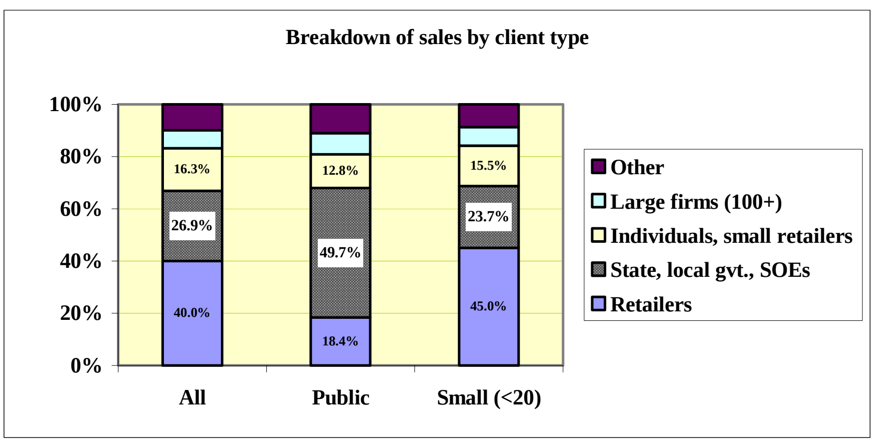
Figure 33: Competition: public vs. private firms



Another area where there may be preferential treatment to public enterprises is *access to government and public contracts.* Figure 34 below gives a sense of the key role of the State in the Algerian economy. On average, 26.9 percent of revenues of the firms in the surveyed sample come from sales to the State, local governments or State-owned enterprises. This is one important mechanism by which the vulnerability of the State budget to oil price movements is passed on to the real sector.

The other important evidence is that this share of *sales to State-related clients is much higher for public enterprises, 49.7 percent, compared to 23.7 percent for small private firms.* This difference may reflect a number of things: first, public enterprises are bigger and may be more capable of responding to the usually large public works or government contracts. Second, SOEs have been providing goods and services to the Government and to other SOEs for decades, and these long term relations usually exhibit inertia to change, even if bidding for public contracts are more competitive today. Third, there may be implicit or explicit preferential treatment to SOEs, or to larger firms.

Figure 34: Distribution of sales - competition in public procurement



POLICY RECOMMENDATIONS: SUMMARY

Some of these issues fall into the broader context of governance and transition politics, but there is a strong need, in the short-term, to: (i) review the public procurement policies to create a level-playing field between all enterprises, whether public or private; (ii) create an enabling environment to incite informal companies to formalize; (iii) reduce further the level of import duties to encourage compliance (firms avoid duties by smuggling because duties are high and the penalty of avoiding them is low); and (iv) reinforce the anti-trust agency.

II.2g Access to information, lack of business visibility

MAIN DIAGNOSTIC AND INSTITUTIONAL ISSUES

The administrative difficulties discussed in section II.2c above are compounded by difficulties with regard to **access to information**, such as laws, regulations and procedures, statistics, market information, etc. The lack of information makes it difficult for entrepreneurs (and bankers) to manage their businesses (and for bankers to assess loan requests). This problem is due in part to the weakness of communication networks. With the exception of the Trade registry and the embryonic ANDI network of one-stop-shops, the Algerian public administration, chambers of commerce and industry and professional organizations do not have a proper, nation-wide electronic network. Furthermore, enterprises cannot access databases and other information centers that could facilitate market research and update their knowledge of current (ever changing) laws and regulations, new technologies, and foreign markets. It is virtually impossible for an investor, a banker or a policy maker to make reasonable estimates of market shares in a sector, number of competitors, growth in output and number of players.

A related issue is the **lack of business visibility** for investors, in terms of the government's economic policy choices. The exposure of the Algerian economy to the volatility of hydrocarbon prices is compounded, and most probably related, to the lack of stability in policy making. The Government has sent mixed signals over the years in terms of its reform agenda. Laws are amended and changed very frequently, and there is a clear lack of consultation with all stakeholders of private sector development. Looking at the recent years, it is increasingly hard to foresee, in the midst of the frequent policy and Government changes in Algeria, any medium term strategy in the Government policy.

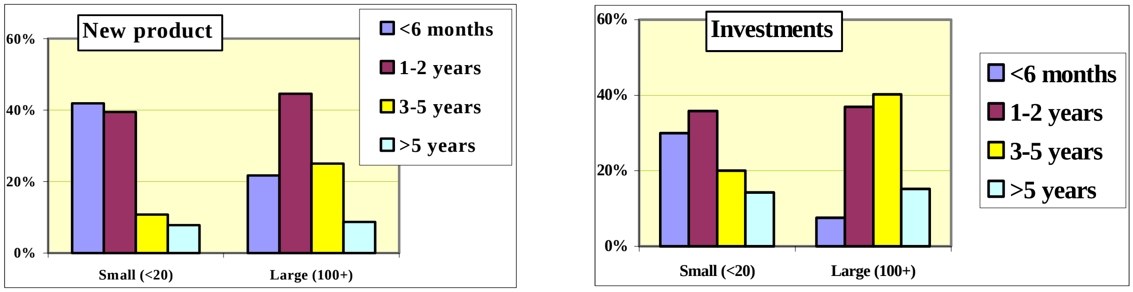
SURVEY EVIDENCE

First, firm managers rank "*uncertainty on economic policy*" very high on their list of constraints. Seven percent of them rank it as *the* most severe obstacle. It is cited after *unfair competition and the informal sector*, *finance*, *land* and *taxes*; and before *corruption*, as *the* most severe obstacle to business. Close to 19 percent of firms judge the laws and regulations that affect their business to be "*unpredictable*" or "*totally unpredictable*". This is more pronounced for small firm (21.3 percent) compared to large firms (13.1 percent). Changing laws and regulations are clearly a major issue, but information about these is also scarce.

Interesting evidence from the survey illustrates the extent of this lack of business information. When asked about their market share, in their main product line, in their *local or regional market*, the average answer of firms in the sample is around 18 percent. This seems already too high for a random sample composed of mostly SMEs, so these answers are probably "guesstimates" and reflect the well documented over-confidence of investors in their relative position. The more interesting result is that, when asked about their market share in the *national* market, the average is even higher, 34 percent[41], clearly an even less precise estimate.

[41] This is despite the fact that 60 percent of all sales, in the sample, go to the local market, versus 39.2 percent to other regions and a small 0.7 percent to exports.

Figure 35: Horizon of firm managers when making decisions



This lack of reliable information and the uncertainty on economic policy is reflected in the time horizon of firm managers when making decisions. *More than 40 percent of small firms don't look beyond a six-month horizon for new product decisions or human resources planning*. In fact, less than 20 percent look beyond two years. Large firms look slightly at a longer term, with around 30 percent looking beyond two years for new product launch, and 55 percent for new investments. In contrast, *30 percent of small firms have six-month horizons on their investment decisions*, and only 35 percent look beyond 2 years.

POLICY RECOMMENDATIONS: SUMMARY

The *development of business information* – a dire necessity in Algeria - must be a systematic process. A few projects are currently in the making – by the Government and also by a private business association (Forum des Chefs d'Entreprise)[42]. Also, the Bank's own forthcoming ICT project should provide a framework for action. The State has a strong public good role in collecting and providing information, and making it easily available for treatment and diffusion by private operators. This will help enterprises to compete on a more equal footing vis-à-vis foreign firms. In practice, it means developing electronic data bases and networks. So far, information in Algeria is still regarded as a privilege, and the sharing thereof is not common.

Priority areas of development should include the systematic publication of all laws, implementation procedures and regulations. A high profile government portal should be created on all public agencies, spelling out their roles, services and requirements, becoming a cornerstone of e-government. Databases on enterprises as well as on prices and availability of real estate – accessible to the public - should likewise be made available. For the financial sector, this would mean the upgrading of the Central Bank's "*Centrales des Risques et Impayés*", with reliable information to financial institutions and businesses about the credit worthiness of their borrowers and clients.

Regarding *reducing policy uncertainty*, in addition to the bigger macroeconomic agenda of shielding the economy from swings in oil prices[43], there is a need for the Government to increase transparency on policy choices, involve much more the various stakeholders, in particular the private sector, in defining policy options and priorities, and finally clearly stating the main lines of a development strategy and economic policy, with credible milestones in its reform agenda.

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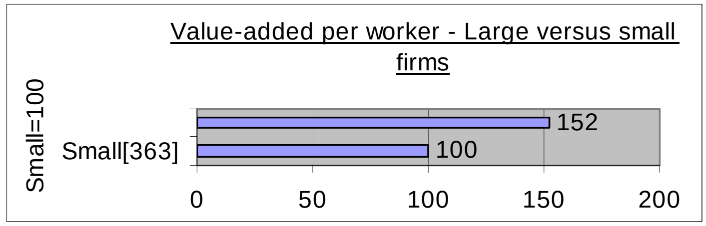
[42] These numerous efforts call for close coordination and public-private partnerships, given the public good nature of the information matter.

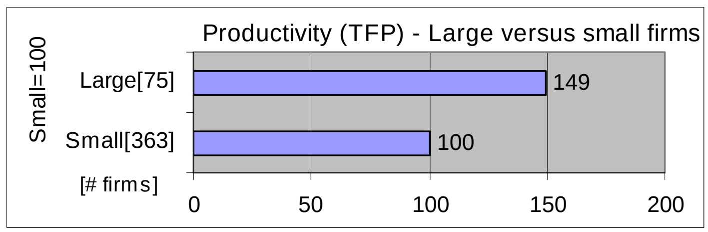
[43] For more details on this, see "*A medium Term macroeconomic strategy for Algeria*", World Bank 2003.

II.3 PRODUCTIVITY AND THE INVESTMENT CLIMATE

We use two indicators to measure firm performance : the first is *value-added per worker*, which is a measure of labor productivity. The second is *Total Factor Productivity* (TFP). TFP is measured as the relative efficiency in generating value-added holding constant the amount of labor (as measured by the number of employees), capital stock, and industry and regional fixed effects (see Annex III.1 for details of estimating TFP, abbreviated here as '*productivity'*).

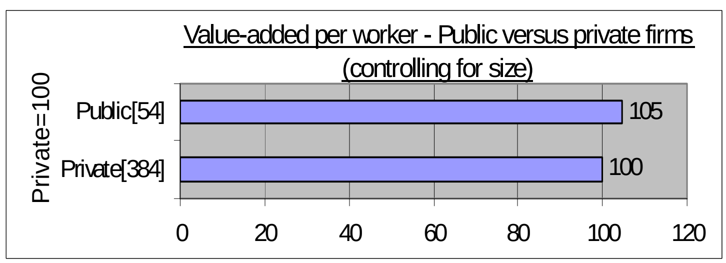
Productivity in large versus small and medium-sized firms

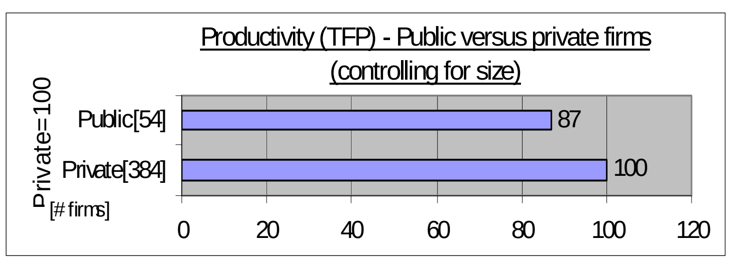




Large firms perform better than small firms. The value-added in the median large firm is 52 percent higher than the median SME, chosen as the reference in the figure[44], and TFP is 49 percent higher in large firms than in SMEs. These differences are all statistically significant, as reported in the regression results in Annex III.2. In addition to the presence of increasing returns to scale effects, an obvious explanation of this difference of productivity between large firms and **SMEs** is the fact that the latter **bear a disproportionate cost of the poor business environment in Algeria –** a consistent finding of all the evidence from the previous section. This implies higher costs of doing business for smaller firms, and consequently lower factors productivity. This link between the investment climate and productivity is further evidenced below.

Productivity in public firms versus private SMEs





Although less pronounced, the same pattern is found by splitting the sample between public and private firms. This is not very surprising, as large firms happen to coincide, in this sample, with public firms, except for one exception[45]. Both value-added and TFP among public firms are, on average, higher than that of private SMEs.

As public firms are on average bigger than private firms in the sample, this

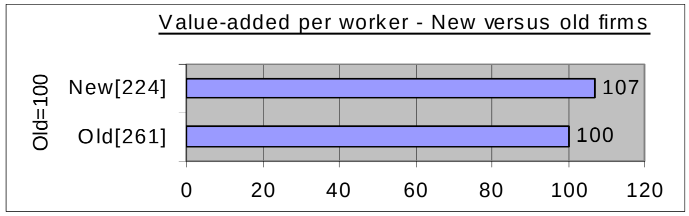
[44] A large firm is defined as a firm with 100 or more employees. Conversely, a small and medium-sized enterprise (SME) firm has between 5 and 99 employees.

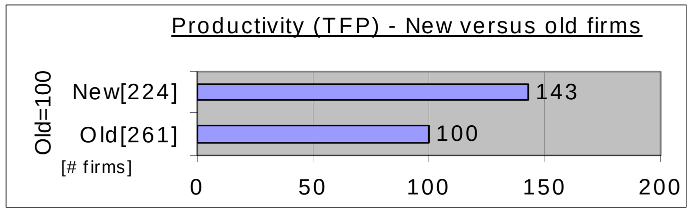
[45] It is illustrative of the poor governance environment in the private sector, that all large private firms of more than 100 employees, except for one, seem to have refused to provide all the necessary financial information to estimate these productivity measures.

positive difference in value-added per worker and productivity may just be due to the size effect evidenced above, rather than to the type of ownership *per se*. Indeed, keeping firm size constant (Figure), *the gap of performance between the public and private sectors is not significant* anymore.

Productivity in "new" versus "old" firms

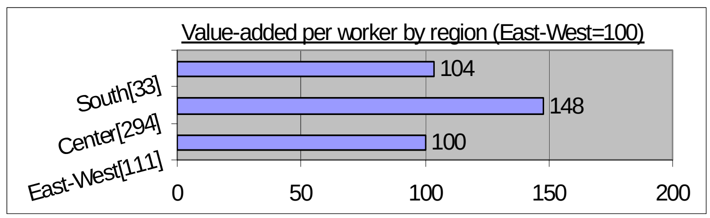
"New" firms, as defined by firms created in 1990 or after, perform better than old firms that were created before 1990. On average, their value-added per worker is 7 percent higher[46]. Nevertheless, *total productivity among the new firms is significantly higher than among old firms* (43 percent higher).

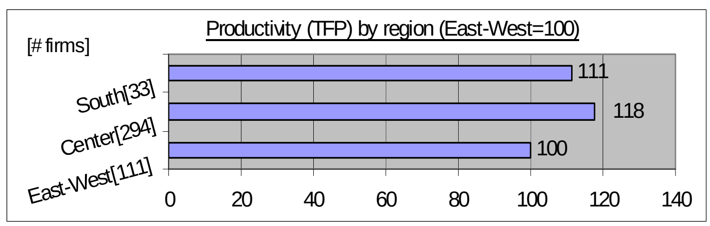




Productivity by regions

The Center region, which includes the capital city greater area (Wilayas of Algiers, Blida and Bourmerdès), performs better than the Southern Wilayas (Ouargla, Ghardaia) and the other northern Wilayas, either in the Eastern or Western parts of the country (Oran, Tlemcen, Annaba, Constantine): *the value-added of the median firm in the Center is 48 percent higher than in the East-West region, while the South is similar to the performance of the Center.* The same ranking is found using productivity data: the Center and the South Productivities are respectively 18 percent and 11 percent higher than in the reference East-West region (=100).





Algerian productivity in international perspective: the case of garments

How do Algerian firms perform compared to other countries in a selected sector that suits international comparisons, the garments industry[47]? In the figures below, we report the median value-added per worker in the garment industry in Morocco, China, India, and Algeria, where India is taken as the reference (=100)[48]. Algeria exhibits the lowest performance in terms of value-added.

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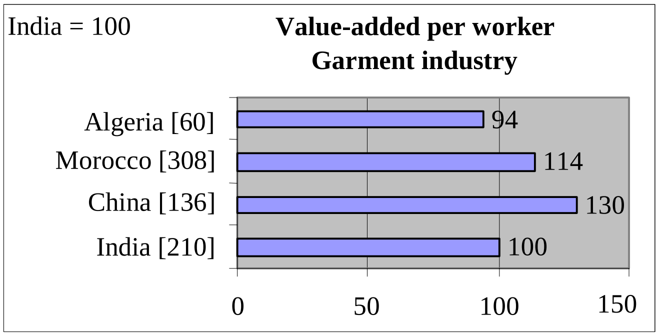
[46] Although the difference is not statistically significant.

[47] As this is a standard product that involves little differences in technology or capital/labor ratios across countries, it is often used from international comparisons – but the results should not be extrapolated to other sectors where

[48] Reported statistics in the Figures are median values. Comparisons are based on value-added series expressed in comparable prices from firm surveys conducted in these countries as part of the investment climate program. Reported statistics in the Figures are median values.

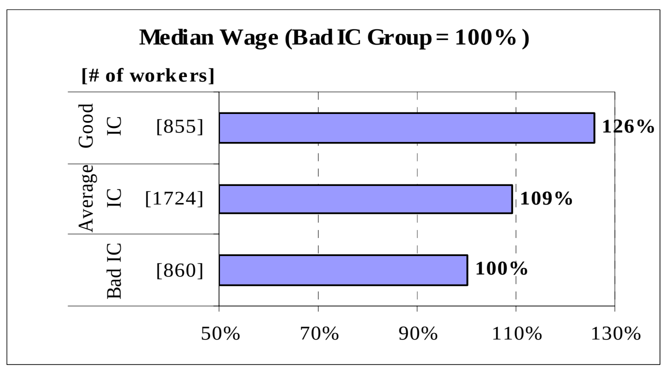
It is 94 percent of the median value-added of India, while Morocco and China numbers are respectively 14 percent and 30 percent above the value-added of India[49] (Figure).



Productivity, wages and the investment climate

Eventually, we are interested in relating investment climate to firm performance. In particular, we wish to address the following questions: how much investment climate matter for improving the firm performance and productivity? What magnitudes of gains can be expected with a significant improvement in investment climate? Annex III.1 describes the methodology used to construct an investment climate index that incorporates various measures of the business environment, and describes how this is related to firm productivity. We come to 2 major conclusions, namely that *improved investment climate features seem to increase the average value-added each worker brings in* and *that value-added per worker increases by 74 percent and productivity more than doubles, as a consequence of the significant improvement of the investment climate*[50]. Even if these estimates should be interpreted with great caution, they do make the case that investment climate matters and that improving the access to reliable and efficient infrastructure, technology and finance can have a strong impact on the private sector efficiency and in turn on economic growth.

An interesting result relates to the relationship of both the investment climate index and TFP on wages. *More productive enterprises paid significantly higher wages. Also, firms that faced a better investment climate (controlling for many other firm characteristics) pay higher wages, on average* (Figure). Controlling for many firm and workers characteristics, the median wage among workers of firms that face a *good* investment climate (defined as firms with an investment climate index in the top 25 percent), is *26 percent higher* than the median wage of workers of similar skills and experience, who are employed in firms that face a *bad* investment climate (defined as firms with an investment climate index in the bottom 25 percent). This analysis suggests that improvements in the business environment have a significant effect on productivity which trickles down to higher wages to workers.



[49] This is despite the fact that the cost of energy in Algeria is competitive. Energy costs are 2.3 percent of total sales for the median Algerian garments firm, compared to 3 percent in India and Morocco, and 2.3 percent in China.
[50] That is an increase of the investment climate index from the 25th percentile of its distribution to its 75th percentile.

II.4 THE VIEW OF FOREIGN INVESTORS: SUMMARY RESULTS FROM A SURVEY OF POTENTIAL EUROPEAN INVESTORS

In parallel to the local survey, we also conducted a survey of 57 potential international investors from France, Italy and Spain. As of September 2002, all of them had recently expressed interest in investing in Algeria, but had not invested yet, either because they had delayed their decision, or, for a few of them, they had abandoned their investment project. The survey findings and the questionnaire are detailed in "*Algérie: enquête d'image auprès d'investisseurs étrangers potentiels*" (MNSIF/FIAS, 2003). The main findings from this survey are as follows:

- Irrespective of the country of origin, foreign investors have the same views of the strengths of the Algerian market and its weaknesses. Most cited strengths are: (i) the size of the market and its potential, (ii) competitive labor and energy costs, (iii) attractive government policy towards foreign investors, and (iv) geographical and cultural proximity to Europe.

- Despite major improvements in the situation over the past years, the fear of security problems and of political instability still plays a major role in shying away foreign investors. For the same reason, foreign firms have difficulties finding expatriate staff that are willing to move to Algeria.

- Except for the *perception* of remaining political instability (including crime and disorder) that prevail among foreign firms and tops their list of constraints to investing in Algeria, the most cited weaknesses closely match the views of local investors: (i) uncertainty in economic policy and reform agenda, (ii) high administrative barriers that do not back the official willingness to attract FDI, (iii) governance issues (corruption, law enforcement, judicial system), (iv) lack of qualified labor, and (v) inefficient banking sector.

- Interestingly, the assessment of the constraints and opportunities of investing in Algeria differ depending on the past involvement of each firm in the country. *Algeria suffers from a bad perception problem, especially on the security and governance areas.* Firms that have either invested in Algeria in the past or have been involved in some way in the country, have a better perception of the opportunities of the Algerian market, and rate less severely its weaknesses.

- The main sources of information to invest in Algeria are visits to the country, and in particular, visits to foreign enterprises that have already invested. Little credit is given to official reports or events organized by the authorities. Based on these investors' experiences, senior authorities are very eager to attract investors and to facilitate FDI, but the reality of the day-to-day administrative constraints do not back these efforts to promote a good image of Algeria abroad.

- Investors were asked to rank Algeria compared to its neighbors, Tunisia and Morocco. Except on the criteria of (i) market size, (ii) labor cost, and (iii) energy costs; Algeria was most often ranked third on all other criteria. This was even the case on "investment incentives", despite the fact that fiscal incentives for FDI are larger in Algeria, suggesting that the negative image of its business environment overshadows other advantages of investing in the country.

As a consequence, as of September 2002, most firms interviewed were adopting a wait-and-see attitude, possibly setting up a representative office rather than deciding the direct investment. Foreign investors are waiting to see strong signals from the Algerian Government on its structural reform agenda, including in the area of privatization.

CHAPTER III
LOOKING AHEAD: A MEDIUM-TERM STRATEGY TO FOSTER PRIVATE SECTOR DEVELOPMENT

Prioritizing among reforms and identifying common underlying issues

In parallel to the survey, the team conducted a careful analysis of the institutional underpinnings of some of the main constraints to business development identified above[51]. The issue from a policy standpoint is first about finding the right list of *binding* constraints, and then about identifying the key *institutional weaknesses* that are common to these constraints. The main challenge lies of course in the way these weaknesses are addressed, and to find the right sequence of priorities in this wide institutional reform agenda.

The most impeding constraints according to the firms can be grouped in two areas: (i) those pertaining to **factor markets**: *credit* and *land* top the list, followed by the *labor* market with the lack of qualified staff, the poor infrastructure, and the lack of reliable business information[52]; and, (ii) those pertaining to **governance, market institutions and economic policy** issues: *competitive issues, policy uncertainty, corruption,* dealing with the *public administration*, the *tax authority* and the *judicial system.* The strategy proposed below offers a set of policy measures that could address in priority the *underlying institutional issues* to the most important constraints to PSD. It is restricted to areas that can impact on the investment climate in the *short or medium term*. Finally, priority was given to reforms that are *complementary*: for example, the banking, judicial, land and information system reforms. Less emphasis was put on some of the more long term issues identified in chapter II, in particular on *human resources and gender issues*. These are probably equally important to long term growth but require deep long term reforms and investments that are out of the scope of this work.

A constraint which is not addressed *directly*, is the one of *unfair competition and the informal sector*. This one tops the list of constraints to Algerian businessmen. Part of it is probably related to major governance issues related to large trading companies which presumably avoid paying tariffs on their imports, and are therefore able to outperform local producers who can't avoid paying tariffs on intermediary inputs. Some of it is also due to the pure informal sector (in particular in the trade sector), for which estimates to GDP contribution range between 10 and 30 percent. Finally, tax evasion and informal labor adds to the list of competitive practices that are judged "unfair", and definitely illegal. We will not provide recommendations that directly tackle these particular constraints. Nonetheless, most of the policies proposed, in particular on governance, the judiciary, and the strengthening of the anti-trust agency, aim at improving the overall investment climate, which will eventually increase incentives for businesses to turn formal and will reduce illegal or uncompetitive behavior.

What about SME specific interventions ?

The analysis in chapter II has identified strong differences among various types of enterprises in the way they cope with the investment climate: in particular "*old*" versus "*new*" firms, and *small* versus

[51] See "*Algeria Private Sector Development Strategy Note*", World Bank, 2003, for more details
[52] Information itself can be considered a factor of production.

large firms (public versus private firms is addressed below). The proposed strategy does not address these *directly*, but rather implicitly by suggesting to create a level playing field between all firms and to strengthen market institutions. Nonetheless, one area where targeted interventions are often popular is the one of *SME development*. SMEs largely dominate the Algerian enterprise sector and clearly suffer much more from the poor investment climate than larger firms. However, without denying that some specifically targeted SME interventions could be justified[53], these have been left out from the proposed strategy, as they will likely have very low impact in Algeria unless the overall business environment is strengthened by more fundamental reforms.

Where does privatization fit ?

So far, privatization has not progressed in Algeria. It has been on the agenda for the past six years. Four different laws were passed. Successive institutions were created, then disbanded. In the end, only three privatizations of note were actually realized. This is a very poor performance which negatively affects the credibility of the Government reform agenda – especially towards foreign investors. Furthermore, such standstill is having serious side effects. The unused or oversized land plots of State Owned Enterprises (SOE) cannot be put on the market. In addition to the weak incentive schemes of SOEs, public managers appear to be greatly constrained by their State hierarchy in their investment and management decisions – leading, for the majority of them, to poorly performing enterprises, unutilized resources, depreciating machinery and huge overstaffing. Finally, as evidenced in section II.2 above, it appears that SOEs may still benefit from preferential treatment in bids for public contracts, crowding out potentially more efficient private competitors. Also, they seem, overall, to suffer less from the current business environment than private firms, except perhaps in accessing credit.

Although managers do not mention it directly as a constraint to their business (public enterprises are not the competitors or monopoles they used to be), there are at least three reasons to call for the process to accelerate, with the appropriate social safety net in place to ensure social stability: (i) Many SOEs are a financial burden on the State and affect negatively the ability of some public banks to extend new credit; (ii) loss-making SOEs are immobilizing resources (land, premises, but also human capital); and (iii) the slow pace of privatizations have had a negative impact on the credibility of the government's reform program, especially for foreign investors. Ultimately, the credibility of the privatization program will hinge upon privatization being pursued in a fast and transparent manner, in order to truly change the incentive structure for privatized entities and mobilize private investment without replacing public monopolies by private monopolies. This is undoubtedly a short-term priority in the strategy.

A short to medium-term strategy to foster private sector development in Algeria

Structural reforms are highly complementary. Reducing the constraints identified above cannot be done successfully in a piece-meal manner, without addressing the fundamental underpinnings of these constraints. The experience of the transition economies in Eastern Europe bears no ambiguity to the importance to pursue rapid reforms on many fronts, in order to send strong and credible signals to investors. Addressing the constraints quantified in chapter II and launching the corresponding reforms *simultaneously* should form the basis of the Government strategy to increase investment in Algeria in the medium-term.

To be implemented effectively, this set of reforms will call for strong political will, ownership and

[53] See in particular "*Small and medium scale enterprise: a framework for intervention*", Kristin Hallberg, World Bank, 1999

dedication from various parts of the Government, significant expert resources, management capacity and senior officials involvement and monitoring – particularly at the Wilaya level. Some of the reforms[54] could be implemented gradually at the regional level – but still in a comprehensive manner, even if in one or two regions – in order to build capacity, learn the know-how of implementation and *build consensus* on progress made.

These structural reforms for enterprise development call for a fundamental redefinition of the role of the State in the functioning of the economy. In Algeria and elsewhere, it is now admitted that the State should have a limited role in the production of goods and services; together with a strong role in regulation and market institutions. However, Algeria has made much less progress in overcoming the – much more difficult - double challenge of successful second generation reforms for private sector development, which consist in:

A. Increasing the State capacity to regulate markets; enforce decisions; ensure a level playing field among all participants; provide strong, effective and reliable public services and market institutions (customs, tax authority, judicial system, anti-trust agency, the administration etc.);

B. Reducing the State intervention in areas where private operators should progressively take over: the land and credit markets; the investment process and the provision of services to enterprises; the provision of infrastructure; and the production of goods and services that do not exhibit public good or strategic features. In particular, the latter calls for accelerating the privatization process and enforcing market discipline on the "old economy";

The policy matrix on the next page summarizes the main features of the strategy. The corresponding policy measures are detailed in the matrices that follow. The summary matrix also includes examples of indicators of progress for each reform. Many of these are based on the ICA survey indicators and suggest that a new survey could be conducted a few years from now when some of these reforms have advanced, in order to assess progress as well as their impact on the business environment and firm characteristics. The matrix also includes a list of the main institutions involved in the reforms, and the feasibility of a regional roll-out of the reform.

It should be stressed that a number of the policy measures included in the policy matrices below are currently being implemented – to various degrees of speed and success – by the Government of Algeria[55]. The proposed strategy's intent is far from denying such progress, but it is rather to stress that these reforms should be greatly accelerated and complemented by a broader range of complementary policy measures, without which their impact may be marginal.

[54] Examples include the industrial land reform, the ANDI roll-out etc. The last column on the summary policy matrix indicates whether the corresponding policy reform would qualify for a regional roll-out.

[55] Although, as described in the "Algeria PSD Strategy Note", (2003), most reform efforts are still overly focused on direct State intervention in markets.

A MEDIUM-TERM STRATEGY TO IMPROVE THE INVESTMENT CLIMATE AND PROMOTE PRIVATE SECTOR DEVELOPMENT: SUMMARY

Short term to medium term objective	**Short term policies**	**Indicator of progress**	**Main public institutions involved**	**'otential 'egional roll-out**
I. Establish market discipline on public enterprises and foster the privatization agenda	• Accelerate transparent privatization, based on existing legal framework • Send strong credible signals by achieving key 'success stories'	#transactions	MPPI, CPE, SGP, other stakeholders[56]	
	• Discipline the "Old Sector": enforce hard budget constraints on public enterprises	RoR of SOEs	SGP, CPE	
II. Reform the institutional set-up of the industrial land market to increase supply of land slots at market rates	• Increase the supply of available public land. Sell or concede at auction major shares of public land to unify the dual land market	#free and available slots. Price diff.	MoF (Domaines) + Wilayas/APC + Min of Justice	YES
	• Review the institutional set-up of the land market to limit the State's involvement to its regulatory function.	Improved ICA indicators	MoF(Domaines)+ stakeholders	
	• Foster private participation in development and management of industrial parks	%of industrial park privately managed	MIR, EGZIs MoF (Domaines)	YES
III. Accelerate the comprehensive reform of the financial sector	• Reduce the State's direct involvement in the financial sector and strengthen regulation • Foster legal reform (collateral legislation, bankruptcy, stock-related legislation (*valeurs mobilières* etc.) • Improve access to market and credit information	Improved exposure & pfolio. of banks Increased credit allocation to SMEs	MoF, MoJ, ANDI	
IV. Reduce administrative bottlenecks and improve access to information services	• Facilitating enterprise registration, exits, clearances	Improved ICA indicators	ANDI, CoC	YES
	• Develop business information		ANDI, CoC	YES
V. Improve/reduce taxation	• Simplify tax system to pave the way for removal of incentive regimes • Reduce overall rates of direct and payroll taxation	Reduced # and rates of taxes	MoF	No
VI. Improve access to quality infrastructure	• Further facilitate private participation in infrastructure services	Improved ICA indicators	MIR, sectoral ministries	YES
	• Scale-up the ongoing projects to rehabilitate the infrastructure in existing industrial zones	Improved ICA indicators	MIR	YES
VII. Improve the legal and judicial system	• Foster implementation of ongoing commercial judicial reform • Improve effectiveness and speed of settlement in commercial matters, including establishment of alternative dispute resolution mechanisms (arbitration, conciliation, mediation) and strengthening enforcement of court's decisions	Improved ICA indicator	Ministry of Justice, Chambers of Commerce, professional organizations (notaries etc.)	YES

Short Term Policies for Objective I: Establish Market Discipline on Public Enterprises and Foster the Privatization Agenda.

[56] MoF: Ministry of Finance, MoJ: Justice, MIR: Industry, MPPI: Participation and Investment Promotion; CoC: Chamber of Commerce; ANDI: Investment Promotion Agency; CPE: Conseil de Participation de l'Etat, SGP: Sociétés de Gestion de Participation; CdC: Conseil de la Concurrence ; ICA : Investment Climate Assessment survey

Short term policy	Description
• **Accelerate transparent privatization, based on existing legal framework** • **Send strong credible signals by achieving key 'success stories'**	• Given Algeria's lag in privatization in industry and the differences in performance between private and public enterprises, the planned ten-year time horizon for privatization of enterprises still in public hands appears very cautious and should be shortened. This would call for stepped up restructuring of distressed public enterprises and additional liquidations of non-viable enterprises. That process would certainly entail short-term economic and social costs (further labor shedding) as well as fiscal costs (redundancy payments). However, with the right business environment in place, growth of private enterprises would be further bolstered and should be able to rapidly offset those costs by creating jobs and increasing tax receipts.. This, however, requires that privatization be pursued in a transparent manner based on clear objectives –which have now been established—with a view to truly changing the incentive structure of privatized entities and to establish competition in the market place. • It is therefore necessary to create without further delay "success stories" by moving ahead with the selected pilot transactions (under the World Bank's privatization project) that have economic significance but limited complexity (in terms of regulatory needs and environmental and social liabilities). As these transactions are being facilitated by specialized investment banks and opened to international investors, they should produce learning effects and "win over" a skeptical public, including a skeptical trade union. Market flotation except of minority stakes in the context of sales to majority owners – should be avoided, as it raises concerns about the weak governance structures in Algeria In most developing countries, stock market privatizations have led to poorly performing firms. Privatization through sales to strategic investors including managerial control are more promising and should be used for most of the intended privatizations. • The MPPI should consider increasing both staff and support equipment, and organizing itself away from sectors to functions (i.e. according to privatization methods), such as auction for small enterprises, batch tendering for medium–sized enterprises, tendering for large enterprises and liquidation for distressed/hopeless enterprises. Even the spinning off of a autonomous separate privatization agency should be considered to avoid the current administrative limitations – such as recruiting hurdles in view of restricted pay scale – inherent to a public administration.
Discipline the "Old Sector"	• Enforce hard budget constraints on public enterprises 1. Accelerate SOE restructuring by selling non-performing assets and terminating non-viable activities, and liquidating the non viable enterprises 2. To facilitate restructuring, concentrate public enterprises on their core business, in particular by transferring responsibility for social services and management of social assets to small enterprises that may be created out of staff downsizing 3. Eliminate fiscal and financial subsidies and directed credits to public enterprises • Accelerate the ongoing diagnostics in industry, and impose the ISO quality norms on all industrial enterprises to promote competitiveness in the free-trade zone with the EU Hard budget constraints entail eliminating a wide range of explicit and implicit mechanisms to channel public resources to enterprises and banks, including tax exemptions, fiscal and financial subsidies, budget and tax offsets, directed credits and contingent liabilities. Failure to do so may put macroeconomic stability at risk, as illustrated by the experience of a number of transition economies.

<u>Short Term Policies for Objective II:</u> Reform the Institutional Set-Up of the Industrial Land Market to Increase Supply of Land Slots at Market Rates	
<u>Step 1:</u> Increase the supply of industrial land	• Sharply accelerate the census and titling of unused land owned by public enterprises (enterprises closed; oversized plots). That may require also an acceleration of the cadastre in peri-urban areas; • Transfer the ownership of that unused land to the State (*Direction du Domaine National*), including excess land of SOEs. A dedicated unit at the *Direction des Domaines* would then be in charge to put this land on the market with properly designed and monitored standard public auctions. The right of ownership of recovered land in industrial parks and in the *domaine foncier* should be reverted to *Les Domaines*, where it was kept originally. Municipalities should recover the right of ownership of land located in the activity areas they created; • Recover unused, privately-owned land whenever this is legally possible, i.e. when an investor did not comply with a covenant of a long-term lease or sale contract requiring realization of its investment within a stated time frame. As above, transfer the right of ownership of those parcels of land to *Les Domaines* or to municipalities; • Create a comprehensive data base of industrial land tenure, including a listing of land available for sale, current market prices, availability of land titles (pending completion of titling), etc.; • Offer recovered land (public and private) for sale at auction or as long-term lease. Direct sales should be allowed only on exceptional occasions (e.g. large investments in special zones). Regulations and procedures governing auction, long-term lease and direct sale should be promptly established and published; • Significantly increase the existing penalty tax on unused land to discourage speculation and accelerate sale of unused land; and • At a later stage, create more industrial parks and activity areas to increase the supply of industrial land in areas where demand might remain unsatisfied. Development of new parks should be sub-contracted to private promoters (see further below for details).
<u>Step 2:</u> Reform the institutional and regulatory framework	• The exercise of the right of ownership of industrial estate, including the sale and long-term lease of land, should be entrusted to the Domaine National for state-owned land and to municipalities for municipally-owned land; • Standard procedures governing transparent transactions and public auctions should be established. Laws, regulations and procedures should be made public and easily accessible to all. Implementing these procedures and conducting transactions should be the responsibility of a dedicated unit at Les Domaines, through its representatives in each Wilaya, similarly at the municipal level; • An Observatoire du Foncier Industriel et Administratif should be created to manage the database of industrial real estate. Access to the database should be open for public consultation (including through the Internet). The Observatoire could be organized as an agency under the Direction des Domaines. It could be decentralized at Wilaya level for easier access; • Policy and regulation functions could be entrusted to MIR, via the Directions de l'Industrie at the Wilaya level. Responsibilities would include: (i) rehabilitating existing industrial zones; (ii) primary development of new raw industrial land; (iii) establishing a standard cahier des charges for private developers; (iv) drawing specifications for automatic delivery of building permits; (v) monitoring compliance with the cahier des charges, including safety and environmental regulations; and (vi) ensuring compliance with sale or lease contracts issued by the Direction des Domaines; • The role of ANDI should be limited to: (i) providing easy access to the database managed by the Observatoire; (ii) disseminating information about laws, regulations and procedures regarding land lease and sales; and (iii) helping investors identify and access land. It should not be involved in the sale or long-term lease of land; and • The CALPIs should be disbanded.

Short term policy	Description
Step 3: **Foster private participation in development, marketing and management of industrial parks and activity areas**	• Rehabilitation of existing parks should be accelerated by sub-contracting it to private developers, including foreign ones, under a long-term concession contract. Private funding of the rehabilitation program is a necessity, considering the inadequacy of public funding available. MIR and the Agences foncières should continue rehabilitating existing industrial parks and activity areas, pending full transfer of that role to private operators; • The market for industrial real estate should be liberalized. Private promoters should be allowed to bid for the purchase or long-term concession of raw or equipped public land, with a view to creating or improving privately-managed industrial parks. Private promoters would be expected to meet the requirements of a cahier des charges. MIR and the municipalities would be responsible for monitoring proper implementation of the cahier des charges (through their representative at the Wilaya level); • The management of industrial parks and activity areas should be entrusted to private operators, including foreign ones, either outside promoters/managers on long-term concession or service contract or managers hired collectively by occupants of industrial parks and activity areas; • Formalities need to be drastically simplified. For instance, investors meeting the requirements of the cahier des charges of an industrial park–e.g. about environmental protection, zoning and building norms, specific activities authorized or forbidden within the park, etc.—would not need to apply for a building permit; • Private operators must be encouraged to participate at all stages of the market development. As part of its overall urban development strategy, the State should identify urban areas to be developed and invest in the primary development of raw land (major roads, principal connections to the energy and water networks, etc.57). It should then divide the zones into large slots to be conceded or sold to private promoters who would be in charge of all the later stages of land development (secondary roads, connections to the energy and water networks, rehabilitation of existing industrial zones, commercialization, management, fee collection, maintenance etc).

Short Term Policies for Objective III: Accelerate the Comprehensive Reform of the Financial Sector

Short term policy	Description
Strengthen the technical infrastructure of the financial sector	• A major constraint to the efficiency of banking operations in Algeria is the outdated financial sector technical infrastructure (inter as well as intra bank), which, for example, causes considerable delays in the clearing of checks. A modernization of the inter-bank payments system as well as the intra-bank clearing and settlement system, based on modern information systems and reliable telecommunications facilities, would be an essential improvement in terms of savings mobilization and allocation.
Foster judicial reform (collateral legislation, bankruptcy etc.)	• Speed up the reform of the legal framework and of the judicial system (collateral legislation, bankruptcy, alternative dispute resolution, stock and securities-related legislation and regulations), including the training of judges and legal professionals in charge of implementation and enforcement to existing and new legislation, to secure financial transactions and allow banks to lend without having to require excessive collateral.
Reduce the State's direct involvement in the financial sector while upgrading its regulatory role	

[57] It should be noted that all of these public works, while under the responsibility of the State, should be outsourced or conceded to private operators via well designed PPI schemes.

Short Term policies for Objective III (continued): Accelerate the Comprehensive Reform of the Financial Sector.	
Short term policy	**Description**
	• Reform the governance framework of the Ministry of Finance, the public banks and the public enterprises. The influence of the state in lending decision needs to be sharply reduced to foster the development of a financial sector more responsive to private sector needs. This will require, short of full privatization, a change in the governance structure of public banks so as to give their management full responsibility for operational decisions. Such a change would need to be supported by a strengthening of their management capacity • Prepare for the privatization of the banking sector. Algeria has already facilitated the entry of private banks. However, these have tended to be small and to concentrate on a few lower risk activities. Ultimately, expanding competitive banking services to the private sector will require privatization of some, if not all, commercial public banks (see below). One approach would be to interest reputable foreign private banks to purchase majority equity participation and thus gaining strategic control in public banks. One such attempt is currently under way with the CPA. • To the extent that public banks are granted more autonomy, and in view of moving towards privatization of the banking sector, it will also be critical to modernize the regulatory framework for the banking sector in line with the recommendations of the Basle Committee. An important dimension of this modernization pertains to the tightening of reporting and auditing requirements.
Expand banking services to the private sector.	• The traditional lack of incentives for expanding bank services to households and small and medium-size businesses, the chronic inefficiency in deposit mobilization , and the urgent need for institutional reform raise serious doubts about the capacity of public banks to become competitive providers of bank services to the private sector. The main elements of the proposed strategy for developing bank services to the private sector are the following: (i) full privatization, first and foremost, of at least one, if not two public banks (CPA and BNA) through the participation of a well-known strategic investor in retail bank services, in order to offer banking services to small and medium enterprises (SMEs) through specialized 'windows" within these institutions; (ii) expansion of the CCP and its transformation into a postal bank, with the aim of increasing the outreach of bank services in non-urban areas and the mobilization of small savings; (iii) introduction of a support program for export financing for SMEs; (iv) reform and development of housing finance, in connection with a current World Bank project; and (v) development and expansion of mutual farm credit.
Develop new financing instruments	• There are a variety of financing instruments which, even if provided by the private sector, can benefit from supporting legislation and arrangements by the state, without recourse to traditional subsidies. The state should support the following instruments: • Export financing through participation in political risk insurance. The Government could follow the recent example of Tunisia, through setting the ground for pre-shipment and general export credit guarantee schemes; • Leasing and equity capital funds. Important regulatory obstacles remain. They should be removed as these instruments can be of great benefit to small and medium sized enterprises with a small capital base and limited collateral. These leasing and equity capital funds are subject to the same prudential regulations as banks, even though they are not deposit-taking institutions. They should be subjected to specific regulations. Also, tax provisions would need to be adapted to avoid double taxation of leasing companies – in particular, of their revenues on the capital quota of leases and of their value added at acquisition and sale of leased goods. Similarly, revising regulations to facilitate repatriation of capital and income would be key to promoting (off-shore) equity funds in Algeria. • The stock market should be promoted, including through enhanced securities regulations and floating of shares of privatized public enterprises, That would support private sector development by mobilizing capital, broadening ownership, and improving corporate governance.
Improve the ability of SMEs to present loan proposals and meaningful business plans	• Develop an economic information system and credit bureaus to facilitate better knowledge on credit applicants and better assessment of credit risk. • Increase consulting and training support to SMEs to enable them to present better business plan preparation and loan applications. • Improve corporate governance in private sector companies to allow for more transparency and better assessment of their capacities and needs. This involves reviewing the legal framework under which they operate.

<u>Short Term Policies for Objective IV:</u> Reduce Administrative Bottlenecks and Improve Access to Information Services	
Short term policy	**Description**
Facilitate enterprise registration	• Pursue the implementation of ANDI which is now rightfully focusing on developing a nation-wide "guichet unique" for enterprise registration. However, the system being installed needs to be improved. The following actions are recommended: • Step 1: Analyze and simplify procedures and documents required • Presently, each organization involved in enterprise registration has its own requirements. The whole process and documentation required should be reviewed and simplified, with a view to eliminate all unnecessary forms and avoid duplications. • In the particular case of ANDI, there should be no need to review investment files. Advantages given to investors – if any – should fall under a common law regime and should be granted automatically. ANDI would then be freed to develop its "guichets uniques" and other activities without wasting resources in needlessly checking investment files. • Step 2: Establish a unified registration file ("liasse unique") • Once step 1 is completed, work can start on establishing a unified registration file that would satisfy the requirements of all organizations involved. This would eliminate redundant processes and documents. For instance, all organizations require proof of identity of an entrepreneur registering a new firm. With a unified file, such proof – e.g. certified copy of passport – would have to be delivered only once. The ANDI "guichet unique" would then be responsible for dispatching the information required to all organizations. Also, the payment of various registration fees would be centralized. Such system simplifies considerably the registration process, as entrepreneurs have only one set of documents to be delivered in one place to satisfy the requirements of all organizations involved. Entrepreneurs are then contacted directly – usually by mail – by all organizations, to be given agreements, identification numbers and, for some, notice of payments to be made (e.g. social security charges). Initially, such system will need to be paper-based, pending the development of electronic networks within and among public administrations, with the notable exception of the Trade Registry. • Step 3: Develop electronic registration • Eventually, the network of "guichet unique" should be organized in such a way that the entire registration process could be done through a single computerized form, in one location, to be dispatched electronically to all relevant organizations. Such system should be tested initially in a few pilot "guichets uniques" before being extended nationwide. <u>Step 4: Densify the system of "guichet unique"</u>
Develop business information	• All laws, implementation decrees, and regulations should be published and made available to the public (web site). As an important side effect, this would considerably reduce the scope for divergent interpretation of laws and regulations among public administrations and enterprises; • Public administrations must publish clear and precise brochures spelling out their role, services and requirements. Although most of them already make such information available through their own web site, a high-profile government portal should be created to offer investors and entrepreneurs a "guichet unique" to access such information. That would be the first cornerstone of e-government services in Algeria. • Databases on enterprises, including financial statements, must be improved and opened to the public. Ultimately, private delivery of information about enterprises – such as the Kompass should be further developed. This is essential to facilitate market research. • Data on price and availability of real estate would be accessible to the public under the proposed "Observatoire du Foncier Industriel" . • A "Centrale des Risques" needs to be created to provide information to financial institutions and businesses about the credit worthiness of their borrowers and clients. • Information about foreign markets and potential partnerships should be developed, in particular through PROMEX, the chambers of commerce and industry, the *Association Nationale des Exportateurs Algériens* (ANEXAL), the "Bourse de la sous-traitance" and private providers. Foreign web sites of agencies involved in foreign trade should also be accessible through these Algerian organizations.

Short Term Policies for Objective V: Simplify the Tax System and Gradually Reduce Average Rates	
Short term policy	**Description**
Improve/reduce taxation	In spite of efforts to improve relations between (corporate) tax payers and tax authorities and of a rate of corporate income tax (*IBS*) which is close to international average, many of the firms surveyed in the ICA and FIAS studies report that the tax system continues to hinder their development. Initial reviews of the tax system (for instance by the FIAS study) indicate that problems may include the number of taxes -some of which have disappeared or are set at much lower levels in many countries (e.g., the Taxe sur l'Activité Professionnelle or TAP and the Versement Forfaitaire or VF)-; the level of certain taxes; an overly complex incentive system that can lead to distortions or discretion; and the administrative procedures and interaction between tax authorities and firm. Compounding that is the high level of payroll contributions (*charges sociales*) on employers and firms. The following actions can be considered:
	• 1: Conduct in-depth review of the tax system for firms and entrepreneurs to inform any reform of the tax system. The study should take into account (a) the direct taxes ; (b) social/payroll contributions and (c) the incentive regimes, possibly using the marginal effective tax rate (METR) approach to compare Algeria with other countries around the world. The study should propose measures to improve the system, based on international best practices. It should seek to measure the fiscal impact of the recommended measures (e.g.,, in terms of loss or gain of fiscal revenues) and consider alternative source of income in case of revenue loss for the State. • 2: In the short term, the proposed reform could include the removal of the VF and the progressive reduction of the TAP rate with a view to its elimination in the medium term. A second possible measure is to establish that the lowered TAP be considered as advance payment from firms towards payment of the CIT (IBS), which should contribute to reducing the tax burden. The CIT while set at a reasonable level could be further reduced, which would contribute to making the special incentive regimes redundant and easier to remove over time. • 3: The incentive regimes are complex and generous and can lead to discretion in the award/management of incentives or delays in the implementation of investments (through additional controls). While being of doubtful value to attract new investment, they can create unhealthy distortions in the economy and also constitute an implicit recognition that the tax burden on firms is too heavy. Removing these incentive regimes over time should be a governmental priority and is closely linked to the ongoing tax reform. With a competitive and simple tax system, there will be no need for special incentive regimes. *Short term*: any incentive that the Government wishes to retain temporarily (while the tax system is improved) should be as simple and transparent as possible. These incentives should be incorporated in the relevant legislation (e.g., customs incentives in the customs legislation, tax incentive in the tax legislation, etc.) rather than the "Investment Code" (Decree of 2000) and should be awarded automatically to businesses meeting certain objective criteria specified in advance in the legislation (requiring no screening). The Government (through the Conseil National de l'Investissement or CNI) should define the objectives and priorities of the investment incentive policy as well as the criteria for their award. But the MT objective should be the removal of the incentive regimes made redundant/useless in a reformed and competitive tax environment. • 4: Also in the short term, tax procedures should also be looked at in view of their continued simplification. • The tax reform of course calls for a careful analysis on the impact of changes on fiscal revenues. International (e.g., WTO, OECD, EU) developments and rules (for instance on the use of incentives) should obviously be taken into account. The WB, in consultations with the IMF, could support the GoA in conducting such a reform

Short Term Policies for Objective VI: Improve Access to Quality Infrastructure	
Short term policy	**Description**
Facilitate private participation in infrastructure services	• As part of extending the scope of privatization, special emphasis should be given: to further facilitate private participatio mobilize needed capital; and, to attract management skills needed to address the shortcomings in service delivery discusse opened the air transport, mobile telecommunication and road transport sectors to private operators. At this stage, priority sh that pose the most important constraints, with a view to choosing those arrangements that need the least regulatory capacity services. Priority sectors should include water processing, water distribution, electricity generation, and port and airport should take place either through straight sales to private operators or concessions contracts. For instance, the overall ha contracted to private operators as a concession and merchandise handling should be liberalized • Build the necessary regulatory capacity for extending and deepening private participation in other relevant infrastructure s
Scale-up the ongoing projects to rehabilitate the infrastructure in existing industrial zones	• Additional public investments are necessary to rehabilitate the infrastructure in existing industrial parks and ZACs. accompanied by the much needed reform of the industrial land market, in particular by handing over the management of promoters.
Short Term Policies for Objective VII: Improve the Legal and Judicial System.	
Improve the legal and judicial system in connection with private sector development needs	• The preparation and elaboration of new laws and regulations affecting the private sector should be disclosed as draft to pro comment and respond to economic and institutional needs identified by both the Government and the private sector. • Laws and regulations should be disclosed as soon as they are adopted in order to allow enterprises to adjust and prepare traditional diffusion through the Government Official gazette (*Journal Officiel*), disclosure and dissemination should b Commerce Bulletins, professional journals and organizations. • Specific attention should be given to economic and financial dispute resolution involving the institutionalisation and Courts involving specific and efficient procedures. Appropriate training programs should be developed and implemente (*huissiers*) and other agents involved in economic and financial transactions: legal issues pertaining to stock management, se contracts and comparative economic law should constitute the core training program. • Review and development of bankruptcy law (*faillite et réglement judiciaire*), securities (*valeurs mobilières*) • Assess current requirements and procedures related to business and simplify or abrogate all those rules and requirements t hindrance to starting easily and efficiently new businesses (deregulation). One recommendation is to establish a single perm to all new businesses. • Review the competition law and remove any provision that may restrict or limit competition among enterprises and prol regulatory institution should be established with participation of all stakeholders (government, chamber of commerce repr guide the process and consumer organization…) to replace the current "*Conseil National de la Concurrence*" which did not • Develop specific laws and regulations on collaterals and establish a single office to register all guaranteed transactions and • Establish an independent watchdog to observe review and monitor the implementation of public procurements rules to implementation of the Procurement Code (*Code des Marchés Publics*). Such a watchdog (*observatoire independent des ma* existing institutions in charge of monitoring public expenditures (*Cour des Comptes* and IGF) but rather would help ens potential bidders, transparency and soundness the public procurement processes. • Establish and further develop alternative disputes resolution mechanisms such as conciliation, mediation and arbitrati being implemented by the CACI with the International Chamber of Commerce assistance but need more resources and assi terms of training, organization and other resources.

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ANNEX I.1 – CROSS –COUNTRY INVESTMENT CLIMATE INDICATORS

Table AI-1: ICA Survey Sample Structure

Firm Size		***Firm Activity***	
	Sample Population		***Sample Population***
Small	408	Food & Food Processing	51
Medium	83	Building & Construction	66
Large	46	Chemicals & Pharm.	52
		Leather & Leather Prod.	14
		Mechanic/Metal/Electric Products Manufacturing	110
Market Orientation		Glass & related prod.	36
	Sample Population	Commercial Printing	77
Exporter	12	Plastics	49
Non Exporter	531	Computer Services	15
		Textiles	79
		Other	7
Firm Ownership		***Firm Location***	
	Sample Population		***Sample Population***
Domestic	477	***Center*** (Alger, Blida, Boumerdès)	351
Foreign	4	***West*** (Oran, Tlemcen)	98
State	65	***East*** (Costantine, Annaba)	68
Other	4	***South*** (Ghardaïa, Ouargla)	40

Table AI-2: Globalizations of Markets and Inputs

	Algeria	Bangladesh	Morocco	China	India	Small	Medium	Large	Foreign	Domestic	Exporter	Non-Exporter	Low Capacity	High Capacity
Percent of Sales:														
Sold Domestically	99.3	61.2	57.3	74.1	43.1	99.6	98.8	97.8	97.3	99.3	71.0	99.9	99.1	99.7
Exported Directly	0.6	34.7	40.4	18.3	45.6	0.4	1.2	1.6	2.8	0.7	24.9	0.0	0.8	0.3
Exported Indirectly	0.1	4.2	2.3	7.5	8.2	0.1	0.0	0.6	0.0	0.1	4.1	0.0	0.2	0.0
Percent of Inputs/Supplies[1]:														
From Dom. Sources	27.5	52.5	51.6	86.1	92.1									
Imported Directly	10.6	40.6	42.9	7.7	11.6									
Imported Indirectly	62.0	6.8	5.6											

Table AI-3: Competitors, Suppliers and Customers

		Algeria	Bangladesh	Morocco	China	India	Small	Medium	Large	Non-Exporter	Exporter	Foreign	Domestic	Low Capacity	High Capacity
Number of Competitors (Median)	Domestic Private Firms		50		6										
	State Owned Firms	1	0				0	1	1	1	0.5	0.5	0.5	1	1
	Foreign Owned Firms				4										
Number of Suppliers (Median)	Domestic Private Firms		10												
	State Owned Firms	1	0				1	1	3	1	0	0	1	1	1
	Foreign Owned Firms														
Number of Customers (Median)	Domestic Private Firms		20												
	State Owned Firms	3	0				2	4.5	3	2	4	0.5	2	2	4
	Foreign Owned Firms														

Table AI-4: Respondents Evaluation to General Constraints to Operation

Firms evaluating constraint as "major" or "very severe" (%)

	Algeria	Bangladesh	Morocco	China	India	Small	Medium	Large	Exporter	Non-Exporter	Domestic	Foreign	Low Capacity	High Capacity
Telecommunications	15.7	24.4		16.5		16.2	16.9	8.9	16.7	15.8	16.7		17.5	11.1
Electricity	11.4	73.2		28.1		11.6	12.0	6.7	16.7	11.3	11.9		11.4	10.5
Transportation		24.2		19.4										
Access to Land	37.3	27.5		16.3		37.5	36.1	33.3	50.0	37.4	39.6	25.0	38.7	34.0
Tax rates	44.6	35.4		34.1		46.8	38.6	37.8	25.0	44.7	46.5	25.0	46.8	41.2
Tax administration	35.8	49.8		23.7		38.7	25.3	26.7	8.3	36.0	37.4		37.6	33.3
Customs and trade regulations	25.0	41.9		21.1		25.6	24.1	22.2	25.0	24.7	26.8	0.0	27.3	21.6
Labor regulations	12.7	8.3		19.4		11.4	16.9	17.8	16.7	12.6	11.5	25.0	10.9	13.1
Skills and education of available workers	25.4	19.3		26.7		25.3	28.9	24.4	25.0	25.9	25.8	25.0	27.0	22.9
Business licensing and operating permits	26.7	16.5		15.9		29.6	19.3	13.3	41.7	26.5	28.6		29.2	21.6
Access to financing	51.7	41.5		24.1		54.4	42.2	44.4	50.0	52.1	52.4	25.0	56.5	39.9
Cost of Financing	45.5	49.8		21.6		46.3	48.2	33.3	58.3	45.1	45.9	25.0	48.7	37.9
Regulatory policy uncertainty		44.4		28.0										
Macroecomonic instability		38.6		26.0										
Corruption	34.3	57.8		22.4		38.0	26.5	13.3	33.3	34.0	36.6	0.0	37.3	28.1
Crime, theft and disorder		39.2		15.7										
Anti-competitive or informal practices	59.9	29.3		17.6		59.0	62.7	55.6	58.3	59.9	60.6	50.0	65.2	49.0
Legal system/conflict resolution														

Table AI-5A: Infrastructure Indicators

	Algeria	Bangla desh 0	Moroc co	China	India	Center	West	East	South
Frequency of power outages (avg. days last year)	14.0	249.0	16.0			13.5	11.0	20.2	14.8
Production lost due to power outages (percent of sales)	5.3	3.3		1.8		5.3	4.9	5.4	5.9
Have own generator (%)	29.5	71.5	16.7	17.0	68.5	29.3	33.0	23.1	33.3
Have own well (%)	32.9	54.5	29.1	21.1	50.1	33.0	34.1	37.5	21.1
Production lost in shipment (%)	2.4	1.0		1.2		2.7	1.5	2.9	1.3
No. of days to obtain a telephone connection	174.3	150.4		12.5		200.4	105.2	149.0	134.3
No. of days to obtain an electricity connection	124.9	79.6		18.2		130.1	88.9	192.3	77.2
No. of days to obtain a water connection									

Table AI-5B: Infrastructure Indicators

	Small	Medium	Large	Domestic	Foreign	Exporter	Non-Exporter	Low Capacity	High Capacity
Frequency of power outages (avg. days last year)	14.2	14.0	10.4	14.6	2.5	9.2	14.0	15.0	12.0
Production lost due to power outages (percent of sales)	5.5	5.1	3.6	5.4	3.3	3.3	5.3	5.8	4.5
Have own generator (%)	22.1	48.2	53.3	28.2	25.0	50.0	29.0	29.3	30.1
Have own well (%)	27.3	41.6	55.6	31.7	50.0	45.5	32.7	33.3	32.2
Production lost in shipment (%)	2.7	1.5	1.0	2.6	0.0	2.1	2.5	3.1	0.9
No. of days to obtain a telephone connection	179.4	164.7	116.2	183.7	90.0	87.0	176.8	189.2	141.0
No. of days to obtain an electricity connection	122.4	159.5	29.8	131.5		340.0	125.1	155.9	63.2
No. of days to obtain a water connection									

Table AI-6: Sources of Finance

	Algeria	Bangladesh	Morocco	China[1]	India[1]	Small	Medium	Large	Exporter	Non-Exporter	Domestic	Foreign	Low Capacity	High Capacity
Share of working capital from:														
Retained earnings	73.9	55.6	62.0	51.5	30.4	75.3	68.8	66.8	63.8	74.1	74.3	81.7	74.3	73.6
Banks, other financial institutions	11.2	33.5	19.6	20.6	36.1	9.2	19.0	16.0	21.3	11.0	11.2	6.7	11.0	11.7
Trade credit	8.8	4.2	7.6	4.1		8.4	9.0	14.2	15.0	8.8	8.2	11.7	8.4	8.7
Equity		0.5	2.6	0.6	13.0									
Informal sources		0.5	3.5	8.6	6.4									
All other	4.4	5.8	4.9	6.3	14.1	5.4	1.9	0.1	0.0	4.5	4.8	0.0	5.0	3.5
Financing of new investments from:														
Retained earnings	73.4	59.9				75.4	74.6	52.5	81.3	73.6	75.1	65.0	72.5	74.8
Banks, other financial institutions	16.1	29.7				13.8	13.8	42.7	7.5	16.0	15.3	35.0	16.9	15.1
Trade credit	4.5	2.6				4.1	7.3	2.9	5.0	4.6	3.8	0.0	3.9	5.4
Equity		0.4												
Informal sources		0.3												
All other	3.9	7.1				4.8	1.7	0.0	6.3	3.9	4.3	0.0	4.7	2.2

[1] Morocco, China, India: shares of total capital (working capital and new investment)

Table AI-7: Credits, Loans and Liabilities

	Algeria	Bangladesh	Morocco	China	India	Small	Medium	Large	Foreign	Domestic	Exporter	Non-Exporter	Low Capacity	High Capacity
Share with overdraft or line of credit	38.6	66.2	78.9	26.6		32.8	59.3	52.2	25.0	39.2	66.7	37.9	35.8	42.9
Percent of credit that is currently unused	76.9	25.6	20.7	28.6		79.9	66.7	69.9	85.0	76.0	58.3	77.2	77.5	77.0
Share with a loan from a bank or financial institution	50.4	58.8	45.1	57.0		45.1	67.5	71.7	25.0	51.2	75.0	50.3	50.1	51.0
For the most recent loan or overdraft:														
(a) Share that require collateral	82.4	69.9		83.0		80.0	89.3	85.3	100.0	84.1	100.0	81.8	83.9	80.5
(b) Average value of collateral required (as percent of the loan)	184.6	94.6		88.9		211.6	130.1	148.2	100.0	185.5	133.4	186.8	201.6	141.7
(c) Average interest rate on loan	11.3	12.4		6.6		11.8	10.4	9.8	10.0	11.2	13.4	11.2	11.8	9.5
(d) Average duration of the loan	25.3	36.5	59.7	14.3		23.2	26.2	33.4	12.0	24.7	22.7	25.2	25.4	25.2
Share of your total borrowing denominated in foreign currency	6.1	5.4	2.2	8.1	3.2	4.9	8.6	13.5	5.0	6.2	20.8	5.8	5.2	8.2
Share of long-term (1 year or more) liabilities in total liabilities	10.8	34.8	11.3	16.8	27.5	8.5	17.0	10.6	0.0	10.1	17.9	10.0	13.2	6.9
Share of short-term liabilities in total liabilities	30.3	26.4	51.8	73.6	21.7	31.7	24.4	34.5	56.6	27.8	16.5	31.9	31.8	28.0
Share of equity and retained earnings in total liabilities	95.7	52.9	28.9	42.1	44.3	96.2	93.7	95.0	75.6	96.0	76.6	95.9	95.8	95.0

Table AI-8: Financial Sector--Auditing, Transactions and Property Rights

	Algeria	Bangladesh	Morocco	China	India	Small	Medium	Large	Exporter	Non-Exporter	Domestic	Foreign	Low Capacity	High Capacity
Share of firms with audited financial statements	59.6	68.7	68.8	74.8		53.0	72.3	89.1	66.7	59.5	54.1	100.0	56.2	69.0
Days to clear through your financial institution														
(a) a check	14/35*	2.9		4.7										
(b) a domestic currency wire		1.9		5.3										
(c) a foreign currency wire		20.6		3.8										
Share of land that is:														
(a) owned		67.4		54.0										
(b) leased or rented		27.2		25.2										
(c) average length of lease/rental		83.5		106.0										
Share of buildings that are:														
(a) owned		62.1		64.6										
(b) leased or rented		37.7		34.3										
(c) average length of lease/rental		74.3		64.5										

*: 14 days to clear a check from between two branches of the same bank in the same town, 35 days for to clear a check between two banks in different towns

Table AI-9: Regulatory Burden and Administrative Delays by Countries

	Algeria	Bangladesh	Morocco	China	India	Small	Medium	Large	Domestic	Foreign	Exporter	Non-Exporter	Low Capacity	High Capacity
Interpretations of regulations consistent and predictable (percent disagree)	19.2	7.8		14.7		20.2	19.5	10.9	19.3	0.0	16.7	18.5	18.3	21.2
Senior management's time spent dealing with regulations (%)		4.2		11.5										
Revenues typically paid to officials to "get things done" (percent of sales)	7.0	2.5		1.8		7.5	2.3	3.8	7.5		0.0	7.2	6.6	6.5
Total firm revenues typically reported for tax purposes (percent of sales)	72.5			54.9		71.2	74.6	83.1	72.9	75.0	80.0	72.5	71.1	78.1
Inspections:														
(a) Total days spent in inspections or required meetings with officials		9.9	4.8	30.9	1.9									
(b) Percentage of meetings/inspections by local authorities					69.8									
(c) Total cost of fines or seized goods (percent of sales)		0.1		0.0										
(d) Percentage of interactions in which informal payment requested														
(e) Value of informal payment (percent of sales)		0.3		0.0										
Imports:														
Avg. days to clear customs	23.2	11.7	2.5	7.5	10.4	23.9	23.0	19.6	24.1	8.8	10.8	23.5	23.7	22.2
Longest day to clear customs	50.2	23.2	5.6	12.2	21.6	50.8	49.5	47.8	53.0	37.0	19.1	51.2	53.3	44.8
Exports:														
Avg. days to clear customs	8.6	8.8	1.7	5.5	5.1	10.3	3.5	14.4	6.6		4.8	11.2	8.6	8.6
Longest day to clear customs	14.2	14.0	2.8	8.1	9.3	12.2	6.8	29.0	9.4		9.6	17.5	14.3	14.0
Share of Exports/Sales	0.7	38.8	42.7	25.9	50.5	0.4	1.2	2.2	0.7	2.8	29.0	0.1	0.9	0.3

Table AI-10: Governance--Uncertainty and Corruption

	Algeria	Bangladesh	Morocco	China	India	Small	Medium	Large	Exporter	Non-Exporter	Domestic	Foreign	Low Capacity	High Capacity
Uncertainty:														
Interpretations of regulations consistent and predictable (percent disagree)	19.2	7.8		14.7		20.2	19.5	10.9	16.7	18.5	19.3	0.0	18.3	21.2
Share of profits reinvested in the firm														
Confidence in the judiciary (percent disagree)	15.2	6.9		7.4		17.2	13.6	2.3	9.1	15.2	15.4	0.0	16.0	15.0
Percent of payment disputes resolved in the courts	4.2	0.9		5.4		2.9	8.4	7.9	0.0	4.2	3.3	0.0	4.1	4.0
Planning horizon for investments (months)		11.9												
Corruption:														
Percent of revenues needed for informal payments	7.0	2.5		1.8		7.5	2.3	3.8	0.0	7.2	7.5		6.6	6.5
percent age of firms saying gift/payment required for:														
(a) a mainline telephone connection				4.7										
(b) an electrical connection				5.1										
(c) a construction permit														
(d) an import license				7.9										
(e) an operating license				9.1										
Revenue reported by typical establishment for tax purposes (%)	72.5			54.9		71.2	74.6	83.1	80.0	72.5	72.9	75.0	71.1	78.1

Table AI-11: Technology Indicators in International Comparison

	Algeria	Bangladesh	China	India	Small	Medium	Large	Domestic	Foreign	Exporter	Non-Exporter	Low Capacity	High Capacity
Firms with ISO certification (%)			50.4										
Form of Technology Innovations													
(a) Firms that developed a major new product line (%)			44.7										
(b) Firms that upgraded an existing product line (%)													
(c) Firms that introduced new technology that has substantially changed the way that the main product is produced (%)			39.5										
(d) Firms that discontinued at least one product (not production) line (%)													
(e) Firms that agreed a new joint venture with foreign partner (%)													
(f) Firms that obtained a new licensing agreement (%)			23.7										
Form of Technology Acquisition (percent of firms rating as 1st, 2nd and 3rd most important)													
(a) Embodied in new machinery or equipment	77.4	59.7	50.9		73.9	91.9	68.4	78.2	100.0	100.0	76.3	75.4	82.8
(b) Hiring key personnel		60.9	18.9										
(c) Licensing or turnkey operations from international sources	5.1	6.4	23.7		3.7	10.8	5.3	4.6	0.0	20.0	4.8	5.2	5.2
(d) Licensing or turnkey operations from domestic sources	1.5	4.1			1.5	0.0	0.0	1.1	0.0	0.0	1.6	2.2	0.0
(e) Developed or adapted within the establishment locally	34.4	27.0	79.2		31.3	40.5	47.4	35.1	0.0	20.0	35.5	35.8	31.0
(f) Transferred from parent company	11.8	4.5	19.4		9.0	21.6	15.8	10.3	100.0	20.0	11.8	10.4	13.8
(g) All other	52.8	85.7	55.9		52.2	45.9	63.2	53.4	0.0	100.0	52.2	54.5	48.3

Table AI-12: Labor and Training in International Comparison and by Firm Characteristic

	Algeria	Bangladesh	Morocco	China	India	Small	Medium	Large	Exporter	Non-Exporter	Domestic	Foreign	Low Capacity	High Capacity
Labor Composition														
Share of workers that are permanent		65.3	69.5	85.9	59.7									
Share of permanent workers that are female	13.7	38.5	47.4	44.5	18.3	14.8	12.0	7.0	5.2	13.9	13.6	24.2	13.4	14.9
Share of temporary workers that are female			64.1	20.8	31.8									
Share of perm. skilled wkrs. that are foreign nationals														
Labor Turnover														
New employees as a share of total	12.6	9.3	11.4		6.2	12.1	14.6	13.0	23.9	12.3	12.7	37.5	12.1	14.0
Employees that left as share of total	12.4	4.4	1.8	12.4	0.6	12.9	12.0	8.9	16.2	12.2	12.6	18.1	11.7	13.6
Avg. time to fill a skilled techn. vacancy (weeks)		3.1	3.5											
Avg. time to fill a prod/service wkr. vacancy (weeks)		1.6		2.9										
Desired level of workforce as percent of current level	135.5	99.0	78.8	87.4	82.8	145.2	106.6	102.0	199.0	134.4	141.2	165.5	144.7	112.5
Training and Education														
Share of workforce with less than 6 years schooling				1.7										
Share of workforce with more than 12 years schooling				11.4										
Share of skilled workers receiving training				45.5										
Share of firms offering formal training	31.8	26.6	16.3	69.6	27.2	23.9	51.3	63.0	66.7	31.0	27.2	75.0	29.9	36.8
Labor Unrest														
Total days lost to labor disputes or civil unrest	4.0	4.1	0.2	0.3		4.0	3.3	5.5	1.7	4.0	3.9	0.0	4.5	3.2

Table AI-13: Main Macroeconomic Performance Indicators

	1990-95	1996	1997	1998	1999	2000	2001	2002
Real GDP growth rate (%)	0.3	4.1	1.1	5.1	3.2	2.4	2.1	4.1
Real growth of non-hydro GDP (%)	0.1	3.1	-1.3	5.7	1.7	1.2	4.5	4.3
Consumer price index (percent change)		18.7	5.7	4.2	2.7	0.3	4.3	1.4
Central Gov. Finances				*(percentage of GDP)*				
Total revenue	29.7	32.2	33.5	27.8	30.0	39.2	35.0	33.7
Hydrocarbon revenue	17.6	20.3	21.4	15.3	18.6	30.2	24.0	21.8
Non-hydrocarbon revenue	12.1	11.9	12.1	12.5	11.4	9.1	11.0	11.9
Total expenditures	31.4	29.2	31.2	31.7	30.5	29.3	30.5	34.0
Wages & salaries	9.2	8.3	8.5	9.3	8.8	7.0	7.4	7.4
Interest payments	2.3	3.5	4.0	4.0	4.0	4.0	3.5	3.1
Investment	7.5	6.8	7.3	7.6	5.9	8.0	8.4	10.6
Other expenditures	12.3	10.7	11.4	10.8	11.9	10.3	11.2	12.9
Overall fiscal balance	-1.7	2.9	2.4	-3.9	-0.5	9.9	4.3	-0.3
Money and Credit				*(percent changes, unless otherwise specified)*				
Net foreign assets	32.3	409.5	161.4	-19.8	-39.3	355.1	68.9	27.8
Domestic credit	18.5	9.3	10.2	9.3	25.2	-19.5	-3.8	9.8
Credit to gov. (net)	19.2	-30.2	51.0	28.0	21.5	-23.5	-22.1	13.7
Credit to the economy	18.0	37.3	-4.6	-1.4	27.9	-17.0	8.1	8.0
External Sector				*(billions of US$, unless otherwise specified)*				
Merchandise exports	11.1	13.2	13.8	10.1	12.3	21.7	19.1	18.1
o/w hydrocarbons	10.6	12.7	13.2	9.7	11.9	21.1	18.5	17.5
Merchandise imports	8.8	9.1	8.1	8.6	9.0	9.3	9.5	10.8
Interest payments	2.1	2.2	2.1	2.0	1.9	1.9	1.5	1.2
Current account balance	0.3	1.1	3.5	-0.9	0.0	8.9	7.1	4.3
in percent of GDP	0.3	2.2	7.2	-1.9	0.0	16.7	12.9	7.8
Overall balance	-1.7	-2.1	1.2	-1.7	-2.4	7.6	6.2	3.5
in percent of GDP	-4.0	-4.5	2.4	-3.7	-5.1	14.2	11.3	6.2
Reserves, excluding gold	1.6	4.2	8.0	6.8	4.5	12.0	18.1	23.2
in months of imports of G&S	1.8	4.5	9.4	7.6	4.7	12.3	18.2	20.6
Foreign debt	28.9	33.6	30.9	30.7	28.0	25.3	22.5	21.9
in percent of GDP	70.2	73.7	65.3	66.6	61.2	47.3	41.0	39.3
Debt service (percent of exp. of G&S)	64.8	30.1	29.7	47.2	39.8	19.8	21.9	21.0
Memorandum								
Oil price for Algeria (US$/bbl)	19.4	21.7	19.5	12.9	17.9	28.5	24.8	25.0
Exchange rate DA/US$	25.9	54.7	57.7	58.7	66.6	75.3	77.2	79.2
Exchange rate DA/€	32.3	69.4	65.4	65.8	71.0	69.5	69.2	75.3

Source: LDB, IMF, Algerian authorities.

ANNEX I.2 ALGERIA - MAIN MACROECONOMIC INDICATORS

ANNEX II - ICA SURVEY DESCRIPTION

II.1 Enumeration and sampling methodology

Sample frame

1. The sampling was done on a database of 18,354 formal enterprises. This is a joint database from the National Statistical Office of Algeria and the tax authority. It is the best available enterprise database in Algeria and is comprehensive in covering the universe of firms that have registered up to 2001.

2. However, it turned out to be of bad quality in terms of the telephone and address information, which made the enumeration very lengthy. Also, it does not track firms that have exited the market, so around 25 percent of sampled firms turned out to have either closed down, or changed sector or location. These had to be randomly replaced (see below).

Sampling methodology

3. The 10 sectors with the highest number of registered establishments were selected. This criteria matched the one on the number of employees. Contribution to GDP at this level of sub-sector was not available. The hydrocarbon sector, the pure trade sector and the government related institutions were excluded.

4. 9 Wilayas (administrative regions) were selected to cover all areas of the country with major industrial concentration. Three in the center (Algiers, Boumerdes, Blida), two in the Ouest (Tlemcen, Oran), two in the East (Constantine, Annaba), and two in the South (Ghardaia, Ouargla). One relatively important industrial center (Setif) was not included. It is situated in the Eastern part of the country, and given the targeted sample size (600), it was decided not to include it. Also, it would have given a disproportionate weight to the Eastern region in the sample.

5. The sampling methodology was designed to construct a sample that has the same structure, in terms of sector-size distribution, for each region of the country, as the sample frame's. It consisted of the following:

- we separated the sample of firms in each of the four regions (East, Ouest, South and Center),
- in each region, firms were divided into cells, based on their sector (10) and their size category (I: 5 to 19 employees, II: 20 to 49, III: 50 to 99, and, V: more than 100 employees).
- in each cell, a number firms were randomly selected. The number of firms sampled in each cell was proportional to that cell's weight (it terms of number of firms) in the overall sample frame, so as to obtain the targeted sample size

Issues in sampling

1. For about 27 percent of the database, the information on firm size was unavailable. Most of these were clearly individual micro-enterprises, but not all. It was important to include these in the sample frame to avoid any bias[58]. Since the number of employees was not available for these, we had to construct <u>a separate sample frame</u> than the one above. The relative sizes of the two samples

[58] For example, it could well be that many firms with more than 5 employees, indeed medium or larger firms, may have voluntarily refused to give the information on their number of employees to the ONS. There could be many reasons for this, that would make them different than firms that provided the information.

was chosen based on the estimated number of firms of more than 5 employees in each[59]. A first sampling was performed on the sample frame based on the firm size categories (see above). The second sampling was based on the sectors' weights only. Both samples turned out to have similar firm-size distributions (except at the upper tail where there are very few large firms).

2. The problem to construct the second sample frame was that more than 95 percent of these firms were expected to have less than 5 employees, so including all of them in the sample frame would have led to a very lengthy field work, with very high rejection and replacement rates[60]. To avoid this problem, the information on the legal status of the firms was used to identify most of the firms with missing number of employees, which in fact employ more than 5 workers. First, all "*enterprises individuelles*" were *rejected* from the sample. Second all "*sociétés par actions*" were *included* in the sample as these usually have more than 10 employees. Finally, a fraction of the *SARLs* were included in the sample frame. That fraction's size was chosen as equal to the weight of the SARLs which have more than five employees, as they appear in the part of the database that had the firm-size information.

Replacement sample

3. Because of the low quality of the database, we expected that many firms would be either out-of-business, would have changed sector or location (especially SMEs), or the team would not be able to locate them. Also, there were risks of refusal to participate. Therefore, to enable random replacement of rejected firms, we constructed a replacement sample twice as large as the primary sample. We used the exact same methodology described above (including the two separate samplings because of the missing firm-size information) and listed the sample firms in random order in each Wilaya/sector/firm-size-category cell[61]. When a firm from a given category was rejected for any reason, the replacement strategy was simply to pick the *first* firm from the corresponding cell, and then deleting that one from the replacement sample. If a replacement firm was not available in the same size-category, the first one in the adjacent size category was taken (first adjacent above, then below), etc. If no replacement firm was available in the same sector/Wilaya, then the missing firm was not replaced. Only the project supervisor had access to the replacement sample, and she was the only one responsible for replacing missing firms.

Pre-survey work, enumeration team selection and training

4. The questionnaire was tested on 12 firms of different sizes and sectors. It was adapted to Algerian specificities, and involved lengthy reviews by many people, including academics, graduate students, CENEAP staff, etc.

5. Enumerators were all graduate students in business or economics. About thirty (out of an initial pool of sixty) were selected through one-to-one short interviews, after the training, based on their ability to ask randomly selected questions in the questionnaire (mock interviews).

6. The training consisted of a two-day plenary session were the questionnaire was reviewed in detail. It was followed by trainings in small groups (essentially mock interviews), under the supervision of CENEAP controllers. This was followed by about two weeks of field training: at the start of the enumeration, controllers accompanied students in the field and conducted the first interviews.

[59] Note that this assumes that the proportion of firms with more than 5 employees in the part of the database that has the firm size information, was the same as in the part which did not have the firm size information.
[60] In fact, this would have increased the rejection rate of the sample by 0.27*95% = 26 percent.
[61] For the second sample, these were only Wilaya/sector cells.

7. The World Bank was involved in each step of the training, selection and enumeration. Supervision visits to each region during the enumeration were conducted regularly. A local consultant (M. Belmihoub) was recruited to closely follow the work, supervise the launch of the survey, and pay visits to the region. In addition to the main training in Algiers, two other training sessions took place in Constantine and Oran for the rest of the country. The World Bank consultant conducted these training in collaboration with CENEAP.

8. Finally, to set the right incentives, enumerators and controllers were paid per validated questionnaire. A first validation was conducted at CENEAP, followed by a second one at the World Bank.

Convincing firms to participate

9. Given the level of informality in Algeria and the reluctance of the private sector to share information, special attention was paid to convincing them to participate. In addition to the help of the Chambers of Commerce and Industry of each region, who contacted their members, a personal fax was sent to each business owner[62]. This letter explained the objectives of the work, promised that the results will be sent to each firm, and assured the confidentiality of the information gathered. This fax was jointly signed by the United Nations Agencies Coordinator in Algiers (UNDP representative), and the World Bank ICA team leaders. It was sent directly from the World Bank office when feasible.

Issues in the field

10. Enumeration took much more time than expected. The main reasons were the following:

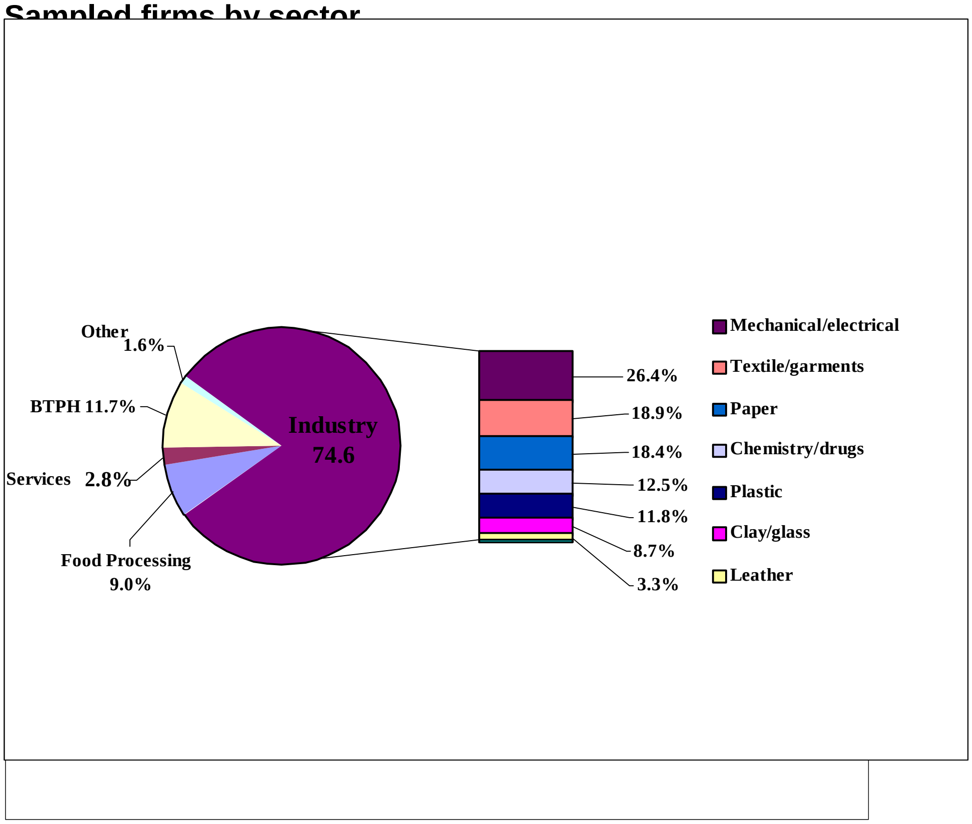
- The firm contact information in the database was of poor quality. Most phone numbers were wrong and just locating the firms often involved lengthy field visits.
- The questionnaire was too long. Given that business owners were very busy, they often asked for interruptions and follow-up visits. Each questionnaire involved three to four field visits on average.
- The productivity module led to many difficulties. It was too detailed and way too long. Many entrepreneurs lost patience and decided to drop-out when they reached that module. In the course of the enumeration, it was decided to reduced this productivity module to a two-page *mini-productivity-module* that included only those questions necessary to estimate the production function. Things improved greatly after this change.
- Most SMEs don't have in-house accountants. Separate appointments needed to be taken for the productivity part.
- The enumeration started on June 1st, and slowed down significantly between mid-July and mid-September. It was also interrupted by national events like the international fair, the local elections etc.

11. Finally, some 230 firms had to be re-contacted (fortunately, most of them by telephone) to fill-in missing information that was crucial to estimate the production function. These questionnaires which the World Bank rejected, had been validated by the CENEAP because no clear validation criteria had been defined by the World bank at the start of the survey. This mistake led to an additional 1 month delay.

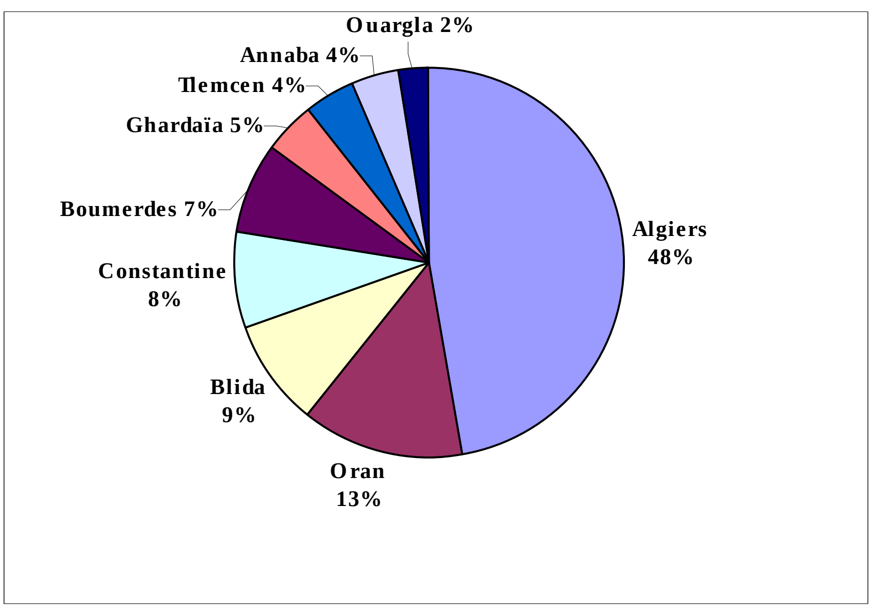
[62] When a fax number was not available, a copy of the letter was delivered by the enumerator.

II.2 Sample description

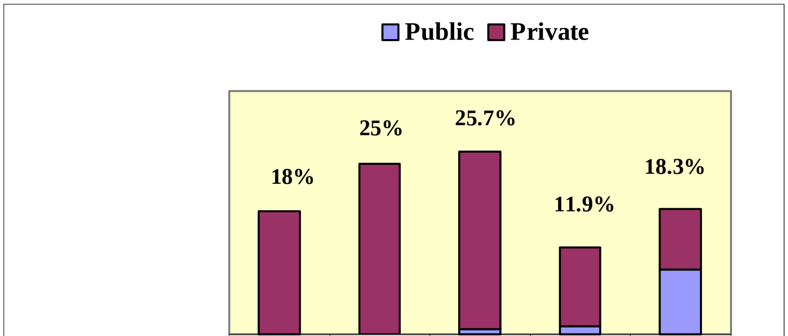
Sampled firms by sector



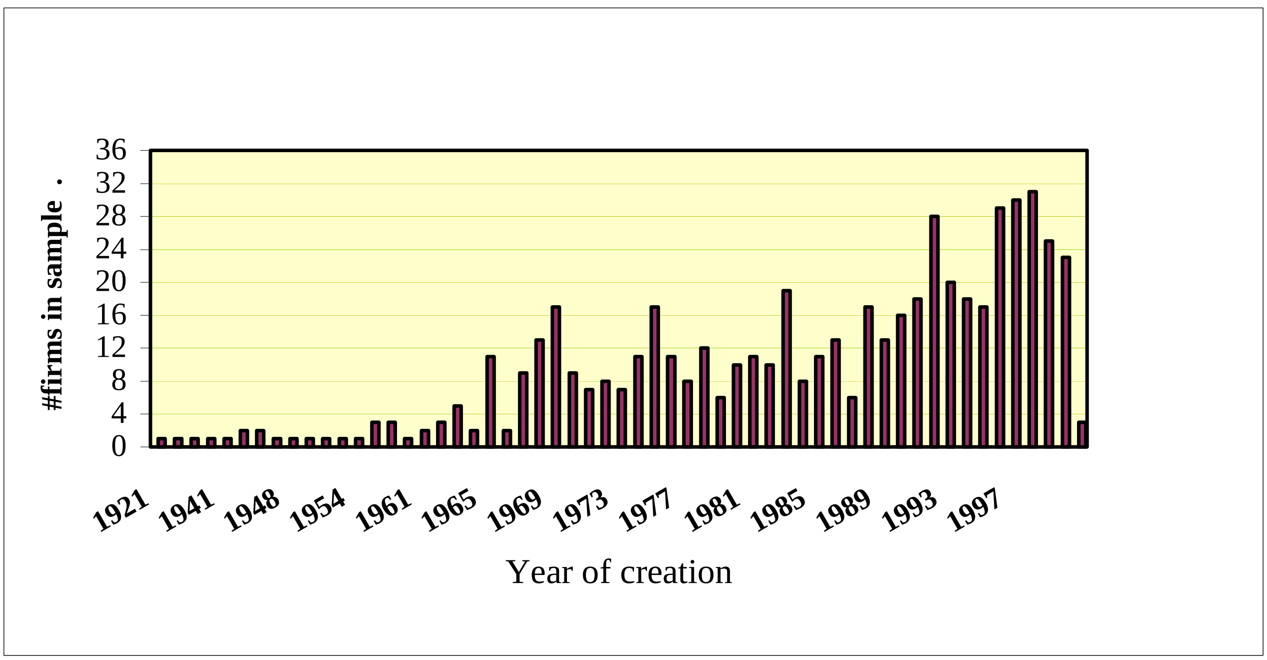
Geographical breakdown



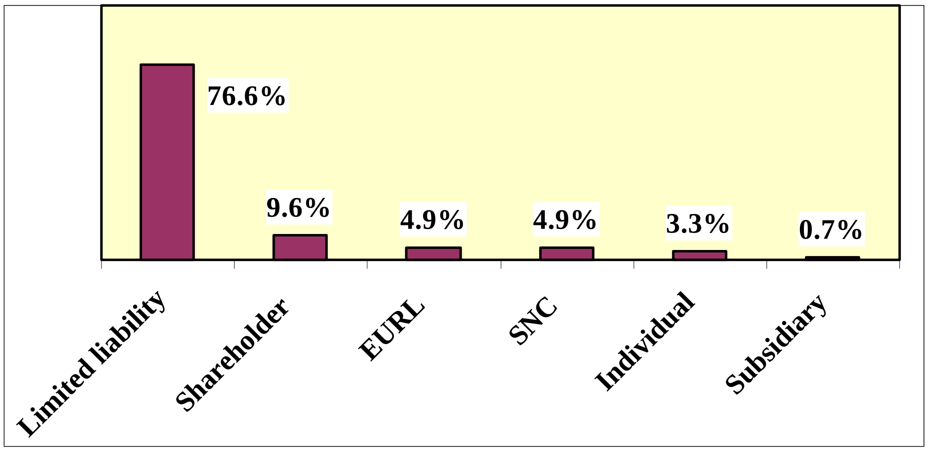
Firm size – number of employees



	5 to 9	10 to 19	20 to 49	50 to 99	100+
Private	101	140	146	64	50
Public	0	0	4	7	53

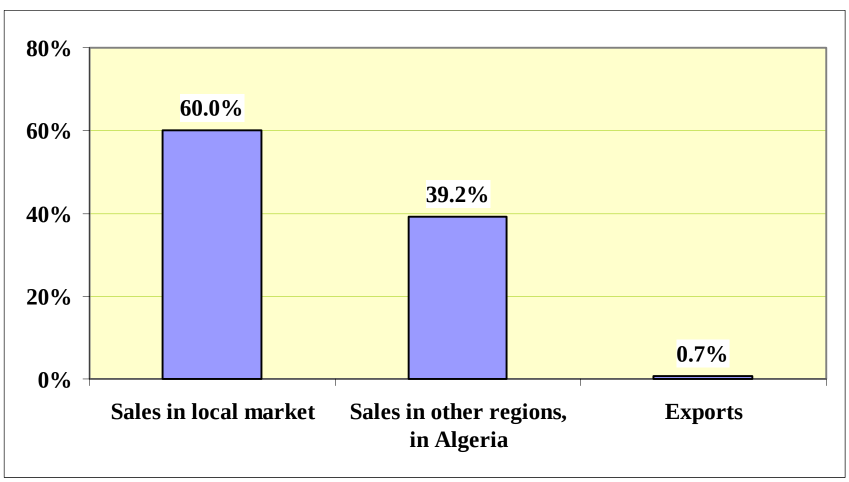


Firm creation date



Legal status

Destination of sales



ANNEX III - TECHNICAL APPENDIX ON DATA ANALYSIS

III.1 Measuring productivity and the investment climate

Productivity according to investment climate

1. Eventually, we are interested in relating investment climate to firm performance. In particular, we wish to address the following questions: how much investment climate matter for improving the firm performance and productivity? What magnitudes of gains can be expected with a significant improvement in investment climate? Based on a methodology describes in detail in Annex III.1, we come to 2 major conclusions, namely that improved investment climate features seem to increase the average value-added each worker brings in and that value-added per worker increases by 74 percent and productivity more than doubles, as a consequence of the significant improvement of the investment climate. However, these estimates should be interpreted with great caution. But they do make the case that investment climate matters and that improving the access to reliable and efficient infrastructure, technology and finance can have a strong impact on the private sector efficiency and in turn on economic growth.

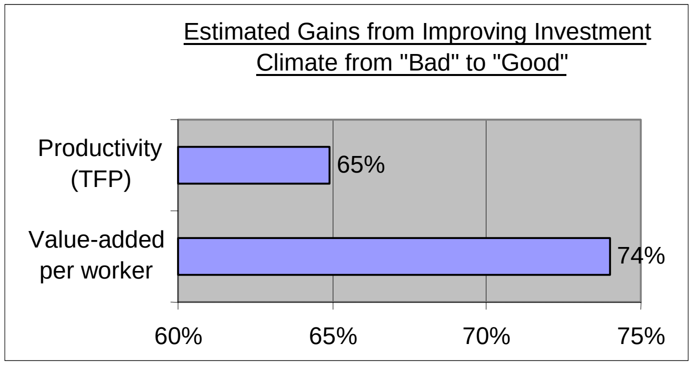
2. We **first** select a set of five IC indicators, each based on the following criteria: (i) the measure can be affect by Government policies, (ii) the measure is widely viewed as important, and (iii) the measure have important explanatory power. We have used the following indicators: **1.** an indicator of physical infrastructure: <u>the number of days of power outages per year;</u> **2.** an indicator of the public administration (customs) effectiveness as well as the ports' infrastructure quality: <u>the average number of days to clear customs for imports</u>; **3.** and **4.** <u>measures of access and use of technology</u> (a dummy variable equal to one if the firm uses <u>email</u> for running business and zero otherwise, and the share of employees using a <u>computer</u>); and finally, **5.** an indicator of <u>access to finance</u> (a dummy equal to one if the firm has an <u>overdraft facility</u> and zero otherwise).

<u>Table1: Defining investment climate clusters</u>

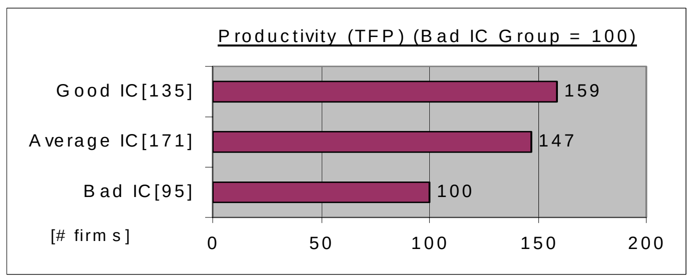
	Bad IC	Average IC	Good IC
IC index	-0.53	-0.08	0.60
# days of power outage	20	15	10
# days to clear customs	30	15	12
email? (dummy)	0	0	1
% employees using a computer	6%	10%	20%
overdraft facility? (dummy)	0	0	1

Bad IC cluster: 25th percentile of the IC index
Good IC cluster: 75th percentile of the IC index
The IC index is calculated using a principal component analysis of the 5 indicators of investment climate reported above. The estimated weights are: # days of power outages (-0.09); # days to clear customs (-0.16); email? (0.29); % employees using computer (0.25); overdraft facility ? (0.12)

3. **Second**, we calculate a composite index of investment climate (IC) as a weighted average of the five investment climate components using a principal component analysis. This index tells us how good the combination of the five components of investment climate is at the firm level. Then we define the category of firms facing a bad (good) investment climate as the 25^{th} (75^{th}) percentile of the IC composite index. The average investment climate group is defined as the 50 percent of firms that are between the two extreme tails of investment climate. Table 1 reports the values of each IC indicators according to the three groups. For instance, the median firm in the "bad investment climate cluster" suffers from 20 days of power outage per year, compared to 10 days in the "Good investment climate" cluster. Similarly, it takes one month for the median firm in the "Bad investment climate" group to clear customs, while it takes "only" 12 days for the one in the Good investment climate group. A firm in the bad investment climate cluster has a lower access to technology (uses less emails and less computers), and to finance (the majority of the firms has no overdraft facility, while in the Good investment climate group, the majority has an overdraft facility).



1. **Third**, we are interested in evaluating if differences in investment climate are related to differences in firm performance. For instance, do firms categorized in the "bad investment climate" cluster as defined above perform differently than the firms grouped under the "Good investment climate" category? Figure XX reports the median value of the value-added per worker in the three investment climate clusters. The *Bad* investment climate group is taken as reference (=100). By contrast, value-added in the *Good* IC cluster is more than twice higher and it is 83 percent higher in the *Average* IC cluster. When controlling for differences of capital and labor intensity and sector specificities, productivity in the *Good* investment climate cluster appears higher by 59 percent than the *Bad* IC reference group. <u>Improved investment climate features seem to increase the average value-added each worker brings in.</u>



2. Finally, we can evaluate how much productivity gains firms can expect from a significant improvement in their investment climate. For instance, how much productivity gains can be obtained by raising the investment climate quality from the *Bad* to the *Good* cluster levels, as defined above? To evaluate these gains, we conduct a regression analysis to estimate how the productivity measures (i.e., value-added per worker and total factor productivity) are affected by the investment climate, holding constant some basic characteristics such as industry and regions affiliations, firm age and firm size (including the initial number of employees and initial sales)[63].

3. It is worth emphasizing that such an exercise should be taken with caution: the estimates do have a large margin of error and, more importantly, they do not provide any guidance on how to achieve these improvements in the investment climate. However, they provide a rough estimate of how much firms could gain if such improvements would happen. In the simulations, we calculate how much productivity gains are made if the investment climate in the "*Bad* investment climate" cluster could be raised to the level of the "*Good* investment climate" cluster, keeping other factors constant. In other words, we estimate the impact on firm performance of: (i) reducing the number of days of power outages from 20 to 10 days, (ii) the number of days to clear customs from 31 to 12

[63] Results of the regression analysis are reported in annex XX.

days, (iii) and (iv) of using emails and computers more intensively, and, (v) of increasing the firm access to bank finance (Table 1). Figure XX shows the results of such an simulation exercise. Value-added per worker increases by 74 percent and productivity more than doubles, as a consequence of the significant improvement of the investment climate. As mentioned, these estimates should be interpreted with great caution. However, they make the case that investment climate matters and that improving the access to reliable and efficient infrastructure, technology and finance can have a strong impact on the private sector efficiency and in turn on economic growth.

Construction of Total Factor Productivity

4. Total factor productivity is estimated using a production function as follows:

$$\ln V_{it} = \beta_0 + \sum_{j=1}^{J} D_{ijt} (\alpha_{jL} \ln L_{it} + \alpha_{jK} \ln K_{it}) + \varepsilon_{it} \qquad \text{(A.1.)}$$

where V_{it} is value-added for firm *i* and period *t*. L_{it} and K_{it} are the number of employees and the capital stock, respectively. The capital stock is proxied by the book value of land, building and production equipment . D_{ijt} is a dummy variable that is one if firm *i* is affiliated with sector *j*. In total we have ten industries as mentioned above. So equation (A.1.) essentially allows sector-specific shares of labor and capital. A more general specification would be to allow the intercept (β_0) also to be sector-specific. However, our empirical experiments suggest that none of the sector dummies by themselves are statistically significant, so we opted not to include industry dummies by themselves. The total factor productivity is then constructed as the estimate of ε_{it} , the part of value-added that is not explained by sector affiliation, capital and labor.

Impact of investment climate on firm productivity

5. To analyze the data more rigourously, we estimated several equations using least square regression and instrumental regression analysis to control for endogeneity in our investment climate indicators. Our base regression is the following:

$$Y_{it} = \beta_0 + \beta_1 X + \beta_2 IC_i + \varepsilon_{it} \qquad \text{(A.2)}$$

where *Y* is either value-added per worker or total factor productivity as constructed above. *X* are a set of control variables, including industry and regional dummies (to allow the performance to have an industry-specific mean), the logarithm of the number of initial employees, and the logarithm of initial sales. The last two measures are intended to capture things such as economies of scale or any other aspects related to scale (market power and so on). *IC* is a vector of indicators related to investment climate. The result, are reported in Table AIII-1

Table AIII-1: The impact of investment climate on productivity

	Value-added per worker	TFP	Value-added per worker	TFP	Value-added per worker	TFP
# days of power outages	-1742 **	-0.011 ***				
s.e.	*692*	*0.003*				
# days to clear customs	-1196 **	0.002				
s.e.	*469*	*0.002*				
email? (dummy)	88899 **	0.160				
s.e.	*36818*	*0.120*				
% employees using computer	216551	-0.188				
s.e.	*177438*	*0.425*				
overdraft facility ?	32833 **	0.115				
s.e.	*37628*	*0.105*				
IC index			147683 ***	0.177 *	198637 ***	0.425
s.e.			*35921*	*0.098*	*59879*	*0.198*
r2 (adjusted)	0.36	0.40	0.36	0.36	0.35	0.35
# obs	347	338	347	338	347	338
Estimator	OLS	OLS	OLS	OLS	IV	IV

All regressions include industrial and regional dummies as well as the logarithm of firm age, initial sales and initial workforce. In order to keep a sufficient number of observations, we replace missing values in the investment climate indicators by their sector-wilaya average.
In the IV regressions, we instrument the IC composite index by the sector-region (wilaya) average.
* (**, ***) indicates that the coefficient of the associated variable is significant with the 10 percent (5%, 1%) levels of confidence.

Difference in mean test by category

Table AIII-2: Test of Differences in mean by category (Value-added per worker)

	mean	std dev.	n	t-statistics
Small	395212.6	17546.21	363	32 . 64**
Large	501216.7	48533.96	75	
Private	409159.4	17719.61	384	-9 . 46**
Public	443262.8	52850.94	54	
Old	414855.5	22339.85	261	1 . 60
New	411164.5	25564.6	177	
Other	343826.1	41354.69	67	-23 . 24**.
Ltd liability	419869	19256.87	328	
Other	343826.1	41354.69	67	-13 . 33**
Share-holding	472094	59554.86	43	
Ltd liability	419869	19256.87	328	-11 . 90**
Share-holding	472094	59554.86	43	
Center	443827.6	21123.58	294	31 . 85**
East-West	355408.5	32968.69	111	
Center	443827.6	21123.58	294	24 . 63**
South	336901.7	39891.88	33	
East-West	355408.5	32968.69	111	2 . 69**
South	336901.7	39891.88	33	
Controlling for size				
Private	403231.3	170305.5	411	1 . 13
Public	369333.1	253322.2	39	

Table AIII-3: Test of Differences in mean by category (Productivity-TFP)

	mean	std dev.	n	t-statistics
Small	0.0116552	0.0529573	353	6 . 73**
Large	-0.0894411	0.2428645	46	
Private	0.0137929	0.0561669	361	10 . 26**
Public	-0.13103	0.2070507	38	
Old	-0.0591675	0.0748438	224	-17 . 45**
New	0.0757344	0.0788642	175	
Other	-0.1958925	0.1559448	61	-20 . 99**
Ltd liability	0.0456979	0.0580998	312	
Other	-0.1958925	0.1559448	61	-2 . 28**
Share-holding	-0.0887806	0.2807684	26	
Ltd liability	0.0456979	0.0580998	312	6 . 95**
Share-holding	-0.0887806	0.2807684	26	
Center	0.0788385	0.0578017	272	40 . 08**
East-West	-0.3496673	0.146692	94	
Center	0.0788385	0.0578017	272	-20 . 65**
South	0.3462015	0.1357343	33	
East-West	-0.3496673	0.146692	94	-23 . 89**
South	0.3462015	0.1357343	33	

Controlling for size

Private	-0.0044675	0.909457	341	-0 . 30
Public	0.0435259	0.8501563	35	

III.2 Econometric results

1. The table next page summarizes the results from the wage regressions performed using the workers interviews data, together with the firm level data. Each column shows the estimated coefficients (with standard errors in brackets) from a regression with the log of the wages as the dependant variable, and a set of independent variables (rows of the table). Each regression has a firm level random effect, and controls for sectors and regions. To correct for potential endogeneity, the investment climate index is instrumented using the average investment climate in each administrative unit (Commune), as well as the sectors, ownership type, size, manager's education and experience. Sector coefficients are calculated relative to the agricultural sector as a baseline. Regional coefficients are calculated relative to the Central region as a baseline. Years of education is approximated from age left school - 6 years. Years of experience is approximated from age - age left school - longest period of unemployment.

2. The tables that follow show the results of firm-level regressions (all control for sector and Wilaya) were the dependant is a measure of the investment climate, and the independent variables are firm characteristics, along which the investment climate may vary (size, ownership, old/new etc.). These tables are intended to confirm the differences in averages mentioned in chapter III, and show that most of these differences are significant, at least at the 10 percent level of confidence, controlling for other characteristics.

LogWage	Coeff. (St.Err.)	Sign.	Coeff. (St.Err.)	Sign.	Coeff. (St.Err.)	Sign.	Coeff. (St.Err.)	Sign.	Coeff. (St.Err.)	Sign.	Coeff. (St.Err.)	Sign.	Coeff. (St.Err.)	Sign.	Coeff. (St.Err.)	Sign.	Coeff. (St.Err.)	Sign.	Coeff. (St.Err.)	Sign.	Coeff. (St.Err.)	Sign.	Coeff. (St.Err.)	Sign.
Yrs Education	4.52%	***	4.41%	***	4.31%	***	4.41%	***	4.41%	***	4.08%	***	4.23%	***	4.13%	***	4.32%	***	4.08%	***	4.25%	***	3.92%	***
	0.22%		0.23%		0.23%		0.23%		0.23%		0.27%		0.28%		0.27%		0.28%		0.27%		0.28%		0.32%	
Yrs Education^2	-0.02%	***	-0.02%	***	-0.02%	***	-0.02%	***	-0.02%	***	-0.01%		-0.02%	***	-0.01%		-0.02%	***	-0.01%		-0.02%	***	0.00%	
	0.00%		0.00%		0.00%		0.00%		0.00%		0.01%		0.00%		0.01%		0.00%		0.01%		0.00%		0.01%	
Yrs Experience	2.22%	***	2.16%	***	2.14%	***	2.17%	***	2.17%	***	2.39%	***	2.28%	***	2.43%	***	2.35%	***	2.40%	***	2.29%	***	2.72%	***
	0.13%		0.13%		0.13%		0.13%		0.13%		0.17%		0.16%		0.17%		0.16%		0.17%		0.16%		0.19%	
Yrs Experience^2	-0.01%	***	-0.01%	***	-0.01%	***	-0.01%	***	-0.01%	***	-0.02%	***	-0.02%	***	-0.02%	***	-0.02%	***	-0.02%	***	-0.02%	***	-0.02%	***
	0.00%		0.00%		0.00%		0.00%		0.00%		0.00%		0.00%		0.00%		0.00%		0.00%		0.00%		0.00%	
Gender	-15.43%	***	-15.68%	***	-16.18%	***	-15.65%	***	-15.72%	***	-17.58%	***	-18.12%	***	-17.31%	***	-17.75%	***	-17.71%	***	-18.06%	***	-18.36%	***
(effect of female)	1.76%		1.87%		1.88%		1.87%		1.87%		2.19%		2.24%		2.19%		2.25%		2.19%		2.25%		2.60%	
Enterprise age									3.52%						6.59%	*	0.78%		8.02%	**	2.56%		6.47%	
(effect of New)									3.24%						3.91%		3.48%		3.88%		3.47%		4.04%	
Inv. Climate													20.31%	***			22.59%	***			21.32%	***	15.10%	***
Index													4.35%				4.34%				4.36%		4.79%	
ln(size of					6.09%	***					6.27%	***	5.43%	***					6.69%	***	5.25%	***	5.79%	***
enterprise)					1.33%						1.93%		1.43%						1.93%		1.43%		2.10%	
TFP											6.13%	***			6.26%	***			5.83%	***			4.06%	**
											1.79%				1.81%				1.79%				1.86%	
REGION			-18.27%	***	-16.52%	***	-18.36%	***	-17.98%	***	-17.10%	***	-18.92%	***	-17.93%	***	-19.81%	***	-15.92%	**	-17.64%	***	-19.04%	***
(effect of South)			5.87%		5.77%		5.86%		5.87%		6.58%		6.31%		6.64%		6.41%		6.58%		6.31%		6.95%	
Public/ private							-2.22%																	
(effect of SOE)							4.77%																	
Construction			13.56%	*	11.79%	*	13.74%	*	13.58%	*	12.33%		19.15%	**	14.99%	*	14.04%	**	13.35%		12.27%	*	23.54%	***
			7.14%		7.02%		7.15%		7.13%		8.56%		7.66%		8.65%		6.95%		8.54%		6.67%		8.58%	
Chemical/			11.41%		13.20%	*	11.27%		11.79%		19.37%	**	12.64%	*	18.12%	**	4.23%		21.49%	**			18.28%	**
Pharmaceutical			7.25%		7.12%		7.25%		7.25%		8.65%		7.03%		8.74%		6.34%		8.68%				7.94%	
Leather			-6.78%		-2.71%		-6.96%		-6.06%		-2.30%		-1.16%		-6.46%		-9.01%		-0.87%		-7.59%		9.25%	
			12.06%		11.86%		12.06%		12.07%		17.63%		12.02%		17.75%		11.82%		17.57%		11.44%		19.89%	
Metalwork/			9.27%		9.65%		9.40%		9.68%		14.52%	*	8.92%		14.50%	*	3.70%		16.12%	**	1.95%		16.49%	**
Mech/ Electrical			6.37%		6.26%		6.37%		6.37%		7.72%		6.35%		7.82%		5.56%		7.72%		5.00%		7.34%	
Building Matrls/			3.12%		-0.48%		3.68%		4.12%		5.81%		9.66%		14.08%				9.45%		3.49%		17.64%	*
Ceramics			8.42%		8.29%		8.50%		8.46%		10.12%		8.39%		10.29%				10.24%		7.63%		9.97%	
Paper			4.15%		7.70%		4.35%		4.40%		12.44%		5.86%		10.74%		-2.51%		13.71%	*	-1.24%		10.87%	
and Printing			6.91%		6.82%		6.92%		6.91%		8.17%		6.92%		8.23%		6.17%		8.16%		5.63%		7.69%	
Plastics and			-10.15%		-8.07%		-10.22%		-9.57%		-5.25%		-10.14%		-4.60%		-18.06%	***	-2.67%		-16.95%	***	-4.20%	
Resins			7.31%		7.19%		7.31%		7.32%		8.52%		7.23%		8.68%		6.58%		8.57%		6.04%		8.03%	
Information			37.28%	***	40.14%	***	37.70%	***	37.57%	***	41.00%	***	20.58%	*	40.45%	***	9.72%		42.50%	***	11.99%		27.28%	**
Services			9.98%		9.81%		10.02%		9.98%		11.96%		11.19%		12.09%		10.95%		11.94%		10.15%		12.22%	
Textiles			-3.10%		-0.19%		-3.00%		-2.38%		3.91%		0.50%		2.63%		-7.80%		6.38%		-6.25%		7.02%	
			6.74%		6.65%		6.74%		6.77%		8.24%		6.66%		8.33%		5.84%		8.29%		5.38%		7.67%	
Other sectors			5.46%		15.07%		5.26%		4.53%		15.93%		-15.87%		4.56%		-32.89%		15.75%		-24.94%		-14.86%	
			16.51%		16.36%		16.51%		16.52%		19.29%		29.50%		19.19%		29.69%		19.23%		29.31%		30.06%	
constant	866.28%	***	865.19%	***	844.60%	***	865.24%	***	863.18%	***	839.77%	***	844.58%	***	856.42%	***	867.98%	***	833.21%	***	850.75%	***	833.91%	***
	3.24%		6.07%		7.47%		6.06%		6.34%		9.71%		7.95%		7.77%		5.76%		10.18%		7.05%		10.46%	
Adjusted R^2	3916		3537		3525		3537		3537		2713		3487		2713		2487		2713		2487		2014	
# of observations (employees)	495		440		439		440		440		334		301		334		301		334		301		244	
# of groups (firms)	0.2012		0.2421		0.2563		0.2421		0.243		0.2633		0.3179		0.257		0.3026		0.2679		0.315		0.3163	

	% of sales to SOEs, state, or local gov.	Access to Land	Tax Issues	Access/Cost of Credit	Corruption	Informal sector	Infrastructure
	[N=555] Coef.	[N=434] Coef.	[N=541] Coef.	[N=555] Coef.	[N=372] Coef.	[N=555] Coef.	[N=468] Coef.
Firm size	0.00007	-9E-05	-1E-05	-0.00013	"-0.02405***	.00073*	-0.0016
	[.009123]	[.00070]	[.00059]	[.00042]	[.00914]	[.00040]	[.00302]
Public	21.460***	0.00926	-0.4977	0.55179**	0.16908	-0.22872	-0.22796
	[5.235]	[.33041]	[.38445]	[.24953]	[.73766]	[.26839]	[.60853]
SME	3.178	0.01021	0.16209	-0.06527	"-1.82501*	-0.03997	
	[4.994]	[.32536]	[.31330]	[.24593]	[1.08062]	[.24561]	
"Old"	2.738	-0.065	0.10456	- 0.29209**	0.15169	0.27401**	0.14398
	[2.688]	[.17199]	[.15713]	[.13524]	[.24650]	[.13502]	[.22102]

	Electricity Outages	Water Shortage	Telepho. outages	Gas Shortage	Power Generator	Have well
	[N=555] Coef.	[N=555] Coef.	[N=555] Coef.	[N=555] Coef.	[N=548] Coef.	[N=520] Coef.
Firm size	-0.01038	0.00219	-0.0173	-0.0066	0.00008	3.59E-07
	[.01387]	[.02754]	[.02197]	[.01306]	[.00013]	[.00013]
Public	-4.92812	-18.513	"-31.9667**	-6.09775	0.0653	-0.17292
	[8.09639]	[16.07621]	[12.82659]	[7.62665]	[.07601]	[.07933]
SME	-1.60553	20.356	-19.299	-6.0771	.24116**	0.24885
	[7.59287]	[15.07639]	[12.02888]	[7.15233]	[.0719]	[.07518]
"Old"	7.0252	11.365	8.91267	3.68957	"-.10971***	-0.02533
	[4.08668]	[8.11451]	[6.47426]	[3.84957]	[.03844]	[.04091]

	Self-Financing Working Cap	Self-Financing Working Cap	Self-Financing Investment	Self-Financing Investment	Commercial Bank Working Cap.	Commercial Bank Working Cap.
	[N=508] Coef.	[N=508] Coef.	[N=350] Coef.	[N=350] Coef.	[N=508] Coef.	[N=508] Coef.
Firm size	-0.00413	-0.00784	"-.03410**	"-0.03494**	0.01192*	.019164**
	[.01479]	[.01285]	[.01736]	[.01525]	[.00985]	[.00856]
Public	-5.84031	-7.0152	-13.075	"-13.2931*	-2.3847	-2.4052
	[6.43993]	[6.01839]	[8.21125]	[7.92996]	[4.29774]	[4.01351]
SME	-0.04331		1.64588		1.12273	
	[6.38898]		[7.36856]		[4.25382]	
Small		-4.7108 [3.32853]		1.38928 [4.11274]		1.59448 [2.21971]
"Old"	1.07981	1.05172	3.95233	3.91601	5.34656**	5.33520**
	[3.13370]	[3.12499]	[4.01553]	[3.99282]	[2.08643]	[2.0839]
	Access to overdraft	**Access to overdraft**	**Last credit approved**	**Last credit approved**	**Waiting time for credit**	**Waiting time for credit**
	[N=546] Coef.	[N=546] Coef.	[N=259] Coef.	[N=259] Coef.	[N=555] Coef.	[N=555] Coef.

Firm size	-0.00007	"-0.00030**	-0.1382	"-0.01614**	0.00019	0.0008
	[.00013]	[.00012]	[.00858]	[.00779]	[.00219]	[.00200]
Public	0.16448	0.03259	10.4887*	9.27253*	-1.2956	-0.95862
	[.08914]	[.07583]	[5.58483]	[5.30857]	[1.28310]	[2.18308]
SME	0.27092***		2.67731		-0.4503	
	[.07705]		[4.95361]		[1.20330]	
Small		-0.02901		-0.36564		0.45033
		[.04473]		[3.31314]		[.69102]
"Old"	"-.08243**	"-0.09128**	0.45361	0.32933	-0.6807	-0.66293
	[.0411]	[.04172]	[3.01805]	3.01836	[.64765]	[.64636]

	Collateral	**Collateral**	**Collateral amount**	**Collateral amount**	**Interest rate**	**Interest rate**
	[N=280] Coef.	[N=280] Coef.	[N=555] Coef.	[N=555] Coef.	[N=552] Coef.	[N=552] Coef.
Firm size	-0.00015	-0.00017	0.04931	0.06967*	0.00122	0.00279
	[.00014]	[.00012]	[.04046]	[.03686]	[.00186]	[.00170]
Public	.22573**	.21468**	-34.097	-22.8014	-1.96098*	-1.11665
	[.09003]	[.08504]	[23.62077]	[21.78171]	[1.09177]	[1.0138]
SME	0.07192		-17.172		-1.81581*	
	[.07821]		[22.15174]		[1.02300]	
Small		0.0658		11.2914		0.14214
		[.05220]		[12.72243]		[.58753]
"Old"	0.01967	0.021152	13.4566	14.1034	1.64***	1.69762***
	[.04771]	[.04769]	[11.92266]	[11.90025]	[.54972]	[.55046]

	Commercial bank / investment	**Commercial bank / investment**	**Loan Period**	**Loan Period**	**Formal Training**	**Formal Training**
	[N=350] Coef.	[N=350] Coef.	[N=555] Coef.	[N=555] Coef.	[N=539] Coef.	[N=539] Coef.
Firm size	.05379***	.06370***	.021544**	.019731***	-0.0002	"-.00037***
	[.01418]	[.01246]	[.00594]	[.00545]	[.00013]	[.00012]
Public	-8.00705	-5.4812	"-5.84759*	-1.89434	-0.0714	"-.17473
	[6.70993]	[6.47982]	[3.46833]	[3.22101]	[.07738]	[.07236]
SME	-5.7809		"-8.83915***		.27394***	
	[6.02132]		[3.25262]		[.07309]	
Small		3.3803		-0.08365		0.0567
		[3.36065]		[1.88135]		[.04213]
"Old"	0.3717	0.90579	2.00909	2.28896	-0.0072	-0.00394
	[3.28134]	[3.26266]	[1.75065]	[1.75977]	[.03915]	[.03949]