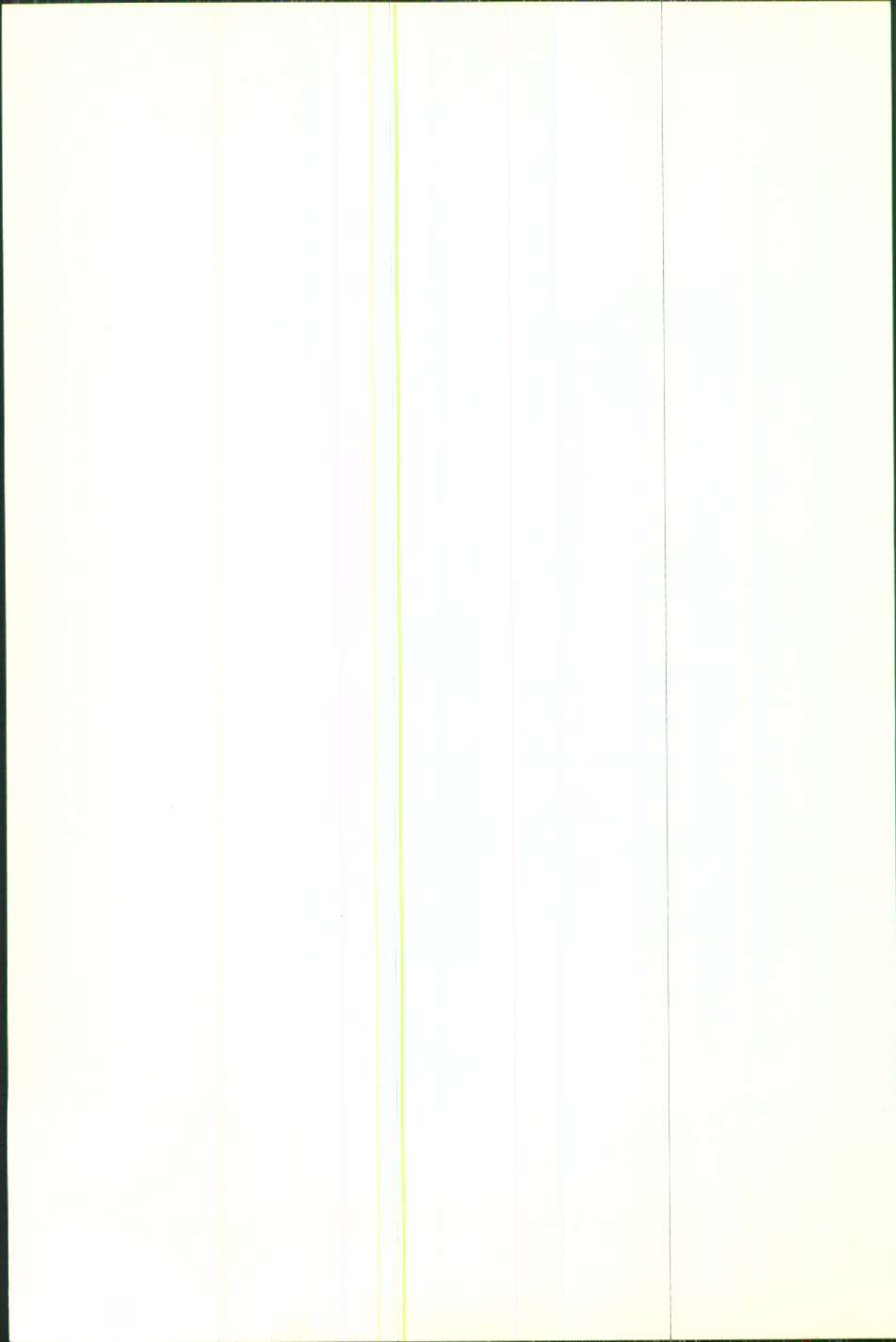


## PART TWO

### THE ALGERIAN BANKING SYSTEM



## INTRODUCTION

The origins of banking in Algeria go back to the middle of the nineteenth century, when it was felt that French economic penetration needed credit backing, and monetary chaos had to be replaced by a properly organized financial system to serve the requirements of colonization and of the new trade flows within the territory and between it and France.

The first step was to set up an issuing bank, the *Banque de l'Algérie*, as the nucleus for the nascent, and soon expanding, network of branches of leading French banks.

Subject to particular influence at different times, the general context in which the structure and the functions of the Algerian banking system developed was one of dependence on and integration with the banking system of metropolitan France, in a typically colonial pattern.

What the banks were meant to do was to meet the financial requirements of the modern sector of Algeria's economy, and so they concentrated largely on financing the colonial trade circuits, that is, imports as well as the marketing of local export products. They did little or nothing for the development of the local economy.

All the banks were located in just a few urban centres, which meant a severe obstacle to the geographical range of credit and left a large part of the economy unmonetized<sup>1</sup>.

<sup>1</sup> This situation was, of course, typical not only of Algeria, but of many other developing countries depending on a colonial power. On the effects of

The movement of funds between the Algerian and the French banking systems, finally, was essentially a one-way traffic, and hence did much to aggravate the imbalances and the dualism in the economy of the dependent territory and to create the same kind of dualism on the credit market.

Only the modern sector of the economy had access to the institutional sources of credit, that is, the issuing bank and the branches of big French deposit and merchant banks, plus a few people's banks serving mainly smaller firms. For agricultural credit, there was a pyramidal system of *Caisses de crédit agricole mutuel*. In all, the modern sector of the Algerian economy was served by a credit system which was a small-scale reproduction of the French one.

By contrast, the traditional sector, consisting mainly of primitive farming, had no access to any institutional source of credit, and, barring the local agricultural co-operative movement, had to rely on personal credit mostly in kind and at usury rates.

In addition to its marked dualistic structure, the credit market was conditioned and dominated by monetary and credit developments in France. This situation of being a "monetary satellite" of France came to an end only a few years ago, and certainly lasted well into the postwar period when the colony was given more autonomy in matters of credit control and supervision of banking activities.

In France, major bank and credit reforms were introduced immediately after the war, and when these were extended to Algeria, the issuing bank ceased to be a private enterprise and a local credit council, the *Conseil Algérien du Crédit*, was set up.

such a banking system on economic development and on the formation and mobilization of monetary savings, see G. Dell'Amore, *Politica bancaria e politica del risparmio nei Paesi Africani*, Milan, Giuffrè, 1971.



But the change was one of form rather than of substance, since both institutions remained under the dominating influence, respectively, of the Bank of France, the French Finance Ministry and the French *Conseil National du Crédit*. In effect, Algeria had no monetary sovereignty either at home or, because of the additional limiting conditions of its membership in the franc zone, in its external relations.

After 1 July 1962, the date of independence, Algeria gradually acquired effective powers of control over its own monetary and credit affairs. This process followed two distinct lines.

The first led from the creation of an independent central bank and the issue of a national currency separate from the French franc, to the adoption of exchange control vis-à-vis France and the resulting withdrawal of Algeria from the franc zone.

The second consisted of the nationalization of the banking system by means of the establishment of public Algerian banks and the progressive "incorporation" into them of the branches of foreign banks operating in Algeria. The banking system so restructured is made up, at present, of five public and two private banks: The five public banks are:

- (a) three commercial banks: the *Banque Nationale d'Algérie* (B.N.A.), the *Banque Extérieure d'Algérie* (B.E.A.), and the *Crédit Populaire d'Algérie* (C.P.A.);
- (b) one development bank: the *Caisse Algérienne de Développement* (C.A.D.); and
- (c) one savings bank: the *Caisse Nationale d'Épargne et de Prévoyance* (C.N.E.P.).

The two private banks are the *Compagnie Française de Crédit et de Banque* and a branch of the *Banque Populaire Arabe*. Neither has more than negligible weight in the banking system as a whole.

It was only after the nationalization of the banking system that the monetary authorities of Algeria were really able to put monetary and credit control at the service of economic development. Both, it will readily be understood, are exercised in a way entirely different from what is typical in market economies.

To begin with, the public authorities themselves directly influence the financial requirements of firms, and then cover them via the central bank and the banking system. To the extent that financial flows are determined *a priori* on the basis of coercive economic planning, there is obviously no scope for manipulation of the cost and volume of credit as a means of stimulating or holding back production.

Secondly, banks do not have nearly as much discretion with respect to their lending policy as do those in decentralized market economies. In Algeria, it is the public authorities who decide, in the light of their planning priorities, how much credit is to be granted to different economic sectors and national companies; the banking system, through which these funds are channelled, acts merely as a check point for their destination and use.

In effect, therefore, the banking system and the central bank are agents of the public administration, and consequently credit control is essentially of the administrative and selective type, and designed to make sure that bank credit accords with the planners' choices.

## Chapter I.

### THE BANKING SYSTEM BEFORE INDEPENDENCE

#### 1. THE FOUNDATION AND HISTORY OF THE BANQUE DE L'ALGÉRIE

On 4 August 1851, an issuing bank was set up at Algiers under the name of *Banque de l'Algérie*<sup>1</sup>. It took the place of the former *Comptoir National d'Escompte*, which had no issuing privilege and hence was hampered by the shortage of local finance funds<sup>2</sup> in meeting the growing credit demand generated by the expansion of colonial enterprise.

The *Banque de l'Algérie* was set up with the full support of the French authorities, who indeed provided also generous financial aid in the form of a credit line in the amount of half the capital actually subscribed. This gave the new bank from the outset a

<sup>1</sup> Twice before attempts had been made to establish a bank in Algeria. On the first occasion, the French authorities turned to the Bank of France and authorized it, by the law of 19 July 1845, to set up an autonomous branch in Algeria, with part of the capital to be subscribed by private investors. Share issues began in 1848, but were interrupted by the February revolution. In July the Bank of France, which had never been very enthusiastic about the project, called the whole thing off and reimbursed subscribers. Next, the *Comptoir National d'Escompte* was set up, but this had no note-issuing privilege and proved unable either to satisfy the growing demand for credit or to make any effective contribution to the monetization of trade. See E. Bloch-Lainé, *La Zone franc*, Paris, P.U.F., 1956, p. 56-57.

<sup>2</sup> At the beginning of French colonization, Algeria had a sort of rudimentary money economy. There was a currency system based on bimetallism, but it was undermined by large amounts of forged and sub-standard coins. See R. Mauger, "La Banque de l'Algérie a cent ans", *Algeria*, July-October 1951, p. 28, and E. Picard, *La Monnaie et le crédit en Algérie depuis 1830*, Algiers, Jules Carbonel, 1930, Chapter 1.

certain operational margin, since its note issue was thus not restricted by its effective gold reserves<sup>1</sup>.

But at the same time, the management of the *Banque de l'Algérie* was subject to a number of limitations<sup>2</sup> imposed by the French government, which also reserved to itself the right to nominate the manager of the bank, upon proposal of the Finance Minister.

However, the public authorities did not exercise their powers of control sufficiently firmly to keep the influence of local interests at bay. After an initial period of cautious lending policy, the new bank succumbed to the pressure of European settlers and in the years 1880 to 1900 granted large amounts of agricultural and mortgage credit, which seriously undermined its financial position<sup>3</sup>.

As soon as the *Banque de l'Algérie* had overcome the resulting crisis, the authorities therefore adopted a series of measures<sup>4</sup> designed to alter certain aspects of the bank's activities and to reinforce control over its management.

First of all, the seat of the bank was transferred to Paris, so as to withdraw it from the play of local interests. Secondly,

<sup>1</sup> The bank had a capital of 3 million francs (6,000 shares), fixed by the law of 4 August 1851, and, according to the same law, began its operations as soon as 2,000 shares were subscribed. It did start with an initial capital of 1,050,000 francs and a state credit of 525,000 francs. See E. Picard, *op. cit.*, p. 117.

<sup>2</sup> The most important of them concerned the size of reserves (p. 41 below).

<sup>3</sup> See p. 51 below. During the years when the *Banque de l'Algérie* was labouring with these financial difficulties, the authorities were patently reluctant to confirm its note-issuing privilege for any length of time. Both in 1897 and in 1899 the privilege was renewed only for a very short period, in sharp contrast with earlier practice: by decree of 15 January 1868 it had been extended until 1 November 1881, and by decree of 3 April 1880 until 1 November 1897.

<sup>4</sup> The relevant decree was issued on 5 July 1900, and also renewed the issuing privilege for 12 years.

new rules were introduced to govern the issue and cover of bank notes<sup>1</sup>, together with a progressive tax on the note circulation. And finally, the bank was required to extend to the colony an interest-free loan of three million francs, repayable on cessation of the issuing privilege. This loan, together with the proceeds of the tax, was to be used for agricultural credit, thus releasing the bank from the risks inherent in non-self-liquidating operations, which might again have undermined its financial position.

Thanks to these measures, the *Banque de l'Algérie* once more conducted its affairs on the principles typical of issuing banks, and, with government control reinforced as well, it became possible to extend its issuing privilege to Tunisia.

This was a project that had been talked of already in 1881 and was now explicitly provided for in the decree of 5 July 1900. It was finally put into effect by a decree of the Bey of Tunis dated 8 January 1904, which granted to the *Banque de l'Algérie* the issuing privilege in the Regency, where the bank was thereupon authorized on 7 March 1904 by the French government to open branches of its own.

Thereafter nothing changed in the status of the *Banque de l'Algérie* until the French government nationalized it after the end of the last war along with the Bank of France. This was done by the law of 17 May 1946, which extended to Algeria the French nationalization measure of 2 December 1945. There followed a number of consequential changes in the structure and functions of the *Banque de l'Algérie*, and these were incorporated in the new statute of 12 January 1949.

Stress was now laid on the function of being a bankers' banker, with powers of credit control. To this end, the *Banque*

<sup>1</sup> See below, p. 41.



*de l'Algérie et de Tunisie*, as it was now called, was authorized by statute to engage in open market operations in order to enhance the effectiveness of its rediscount policy, in the interests mainly of safeguarding foreign exchange reserves<sup>1</sup>.

Secondly, the distribution of the bank's equity was changed<sup>2</sup>, and so was the composition of its board of directors. Under the new statute, the governor and deputy governor were appointed by the public authorities, and the 15-member board of directors consisted of representatives of France, Algeria and Tunisia, as well as economic spokesmen of the latter two. The set-up was completed by a three-member board of auditors.

The issuing privilege was renewed without time limit, given that public control in the bank's management was now sufficiently strong. It did, however, come to an end in Tunisia on 19 September 1958, when that country set up its own central bank.

The withdrawal of the Tunisian representatives necessitated another change in the composition of the board of directors, and the bank reverted to its original name of *Banque de l'Algérie*. As such it carried on until 31 December 1962, when Algeria, now politically independent, set up a central bank of its own under the name of *Banque Centrale d'Algérie* (B.C.A.).

## 2. THE ACTIVITIES OF THE BANQUE DE L'ALGÉRIE

So much for the institutional history of the *Banque de l'Algérie*. It remains to enquire what the bank actually did in

<sup>1</sup> See. P. Pascallon, "L'Expérience monétaire algérienne", *op. cit.*, p. 702.

<sup>2</sup> The 50,000 500-franc shares were divided into three parts; 17,500 went to Algeria, 7,500 to the Regency of Tunisia, and the rest to the French government. All were inalienable. The Algerian and Tunisian holdings were to revert to France in case of a cessation of the issuing privilege.

all these years, and what were the effects of its activities on the country's monetary situation. The salient points to consider in this connection are the issue and convertibility of bank notes, and the bank's relations with the economy and the Treasury.

(a) *Bank note issue and convertibility*

The *Banque de l'Algérie* was initially required to maintain a fixed ratio of one to three (*règle du tiers*) between its gold reserves and the combined amount of notes in circulation and sight deposits (Art. 6 of the law of 4 August 1851)<sup>1</sup>.

In 1900 this system of proportional reserves was replaced by a ceiling to be established from time to time by the public authorities with a view to adjusting the note issue to the requirements of the Algerian economy, due account taken of effects on the French economy, as well as to those of the colonial administration in particular. In any case, the need for a rigid ratio between reserves and sight liabilities had become less pressing after the notes of the *Banque de l'Algérie* were declared forced currency<sup>2</sup>.

But the notes of the *Banque de l'Algérie* were legal tender only in Algeria<sup>3</sup>, and the bank therefore still had the problem of

<sup>1</sup> In Algeria's backward economic environment this ratio was difficult to maintain. As R. Mauger (*op. cit.*, p. 29) observes: "La pauvreté des ressources locales en monnaies métalliques, la thésaurisation, la défiance à l'égard de la monnaie de papier, particulièrement vives en milieu indigène, rendirent très difficile le respect de cette règle du tiers garanti. La Banque dut recourir à des achats d'écus en France et procéder à des augmentations de capital, d'où une gêne dans son rôle de dispensatrice du crédit".

<sup>2</sup> Originally, the bank notes were convertible into gold. They were declared forced currency in 1870, and again in 1914. They became convertible again on 25 June 1928, and then finally ceased to be so on 12 October 1936.

<sup>3</sup> And later also in France, after the law of 2 July 1959, on the monetary circulation, unified the formal characteristics of the French and the Algerian franc and declared bank notes issued in either country to be legal tender in both.

backing their convertibility in relation to the rest of the world. Given the structure of Algeria's economic system, this was a far from hypothetical problem. Hence balance in the foreign accounts was the permanent limiting factor with respect to the bank's note issue, which was regulated by the co-ordinated manipulation of the circulation ceiling and the discount rate.

The mechanism of conversion, however, differed according as "the rest of the world" happened to be France (or other members of the franc zone), or else other countries. The Algerian franc had the same parity as the French franc, and therefore automatically also the same exchange rate with other currencies. Consequently, the *Banque de l'Algérie* had to be in a position to guarantee at any moment, and without limit, the convertibility at par of Algerian into French francs, so as to assure free transfer from and to France and other countries on a continuing basis.

Common parity with the French franc was not, of course, a monetary tie peculiar to Algeria, but was shared by all France's political dependencies joined together in a currency area known as the franc zone<sup>1</sup>. Generally speaking, this rests on two basic

<sup>1</sup> Nor was the franc zone the only currency area. In the context of credit markets in Africa, the Franc zone is usually, and rightly, contrasted with the sterling area. Apart from other economic and institutional differences in member countries, there is indeed a contrast in the different closeness of the ties linking member currencies in the sterling and the franc system, respectively. This was a consequence of the different monetary functions exercised by the Currency Boards in the sterling area and the colonial issuing banks in French territories. As E. Bloch-Lainé (*op. cit.*, p. 8) points out: "... les monnaies coloniales de l'Empire français avaient, avec le franc métropolitain, des liens qui les distinguaient nettement des monnaies étrangères. Sans doute ne lui étaient-elles pas attachées aussi étroitement que les monnaies des colonies de la Couronne britannique le sont à la Banque d'Angleterre: dans ces territoires, il n'y a jamais eu, en effet, d'émission autonome puisque des 'Currency boards' se bornent à faire l'échange des billets, sans accomplir aucun acte de création monétaire".

Similarly, A. Mauri explains that the Currency Boards were conceptually far from central banks, and indeed had less operational scope even than a mere



principles<sup>1</sup>. The first has to do with monetary relations between member countries and France, and involves two main rules: (a) fixed parity between all (satellite) currencies in the zone and the French franc as the key currency, and (b) unconditional convertibility of member currencies within the zone, the metropolitan French franc serving as "gage and standard" for all of them<sup>2</sup>.

The second basic principle concerns relations between the franc zone and the rest of the world, and here there are three main features: (a) exchange control; (b) control of foreign trade; (c) central management and redistribution of all the foreign exchange accruing to the zone through its members.

issuing bank, since they were not entitled to grant credit in their territories (A. Mauri, "La genesi della banca centrale in Kenia, in Tanzania ed in Uganda", in *Scritti in Onore di G. Dell'Amore*, Milan, Giuffrè, 1969).

Only after the last war were the Currency Boards authorized to issue money within certain limits, as the East African Currency Board, for instance, was in September 1955 (A. Mauri, *op. cit.*).

On the repercussions on the economic system of the mechanical behaviour of the Currency Boards, especially the East African one, see L. Frediani, Foreword to: S.K. Basu, *La Banca centrale nei Paesi in via di sviluppo*, vol. 21 in the series entitled *Collana internazionale di saggi monetari, creditizi e bancari*, and published by the Cassa di Risparmio delle Province Lombarde, Milan, 1971, p. XVI-XXIV.

<sup>1</sup> Actually, the franc zone is a rather complicated system, and not all member countries are linked to the French currency and Treasury on the same terms. For a brief analysis of the franc zone, see J. Branger, *Traité d'économie bancaire*, Paris, P.U.F., 1968, vol. I, p. 133-146. For a more detailed and comprehensive discussion, see E. Bloch-Lainé, *op. cit.*

<sup>2</sup> "Tout se passe, dans la pratique, comme s'il y avait pour l'ensemble de la Zone franc, représentée par des vignettes diverses, et avec des appellations différentes, une seule monnaie dont le 'gage' est inscrit tout entier à l'actif du bilan de l'Institut d'émission métropolitain" (E. Bloch-Lainé, *op. cit.* p. 36). This situation obviously presupposes unification of monetary policies in the different countries concerned, via strict control of the French monetary authorities over the colonial issuing banks.

Until Algeria obtained its independence, it formed part of the franc zone in this strict sense<sup>1</sup>. It is of interest, therefore, to examine by what means and techniques freedom of transfer to and from France was maintained and how the system of controls vis-à-vis non-member countries worked.

(i) Monetary relations with France

Money flows between France and Algeria went through two distinct circuits. One was the Treasury's and was fed by the operations of the public administration; thanks mainly to "sovereignty" expenditure and to funds allocated for investment purposes, Algeria often had a net credit balance on this score.

The other circuit was that of the issuing bank and comprised commercial and financial transactions through the banking system, usually leaving Algeria with net liabilities.

In case an Algerian debt had to be settled in France, either the Treasury of the *Banque de l'Algérie*, depending on the circuit concerned, accepted payment in Algerian bank-notes and the French Treasury or a French correspondent of the *Banque de l'Algérie* sent the French creditor the equivalent in Bank of France notes. In the opposite case, the French Treasury or a French correspondent of the *Banque de l'Algérie* arranged for the Algerian creditor to be paid the equivalent in Algerian francs. In other words, the settlement of Algerian debts involved an increase in the credit balance on the Treasury's account with the *Banque de l'Algérie* or a diminution of the latter's franc assets. The settlement of French debts on the other hand involved a diminution

<sup>1</sup> In a broader sense, the franc zone may be understood to include also those countries whose currencies are not linked to the French franc in the manner described in the text, but which nevertheless form part of the system of financial, economic and technical co-operation agreements with France. It is only in this broader sense that countries like Algeria, or, say, Tunisia and Morocco, can at present be regarded as belonging to the franc zone.

in the Treasury's credit balance with the *Banque de l'Algérie* or an increase in the latter's franc assets.

In order to maintain free convertibility between the two currencies at the fixed exchange rate, two basic rules of the game had to be followed. First, given that the Treasury circuit was likely to represent a net asset for Algeria and that this meant a disbursement of Algerian francs, the Treasury account at the *Banque de l'Algérie* always had to show a credit balance, and the bank must never be asked to settle this balance in French francs through the French Treasury<sup>1</sup>.

The first condition was easily met by the *Banque de l'Algérie* opening a credit line to the Treasury, on which the latter could draw without limit and thus could always cover any gap between its requirements and resources in Algerian francs<sup>2</sup>.

The Treasury, in its turn, exacted a price for its commitment not to repatriate its credit balances. First of all the *Banque de l'Algérie* had to pay interest at a rate rising proportionally with the amount involved<sup>3</sup>, and secondly it had at all times to keep enough French francs to cover the balance.

<sup>1</sup> The Algerian Treasury was set up in 1943, and later, in 1958, became a special section of the French Treasury.

<sup>2</sup> "Le compte courant toujours créditeur est alimenté d'une part par les ressources locales du Trésor (excédent d'émission des bons du Trésor, remboursement par les territoires de dépenses réglées pour leur compte par le Trésor dans la métropole, dépôts au Trésor des disponibilités des territoires, excédent des transferts postaux...) et, d'autre part, par des 'tirages' sur le compte d'avances. Si les besoins du Trésor en monnaie locale excèdent ses ressources dans la même monnaie, le Trésor 'tire' sur le compte d'avances les sommes nécessaires pour les satisfaire. Si à un moment quelconque le Trésor a des disponibilités en monnaie locale supérieures aux dépenses à effectuer, le compte courant sert à rembourser les avances portées à l'autre compte". (E. Bloch-Lainé, *op. cit.*, p. 354).

<sup>3</sup> The interest rate was in practice so fixed that it might be profitable for the bank to use its French francs either for transfers or for reducing the Treasury balance locally, while in the case of insufficient reserves there was an inducement to manipulate the discount rate so as to re-equilibrate the foreign accounts. See P. Pascallon, "L'Expérience monétaire algérienne", *op. cit.*, p. 699.

The second rule of the game was that when the issuing bank conducted transactions through the Bank of France or other correspondent banks, it had to keep with them any resulting credit balances and thus make them available for settling Algerian debts.

Other things being equal, therefore, the Algerian bank notes' convertibility at a fixed rate depended on the French franc assets of the *Banque de l'Algérie* and hence on balanced foreign accounts — a condition not always met in practice.

In the last analysis freedom of transfer rested on the fact that the Algerian issuing bank's notes were guaranteed by the French monetary authorities, in the sense that the latter undertook to supply the French franc credits required for convertibility at par.

Thanks to credit from the French Treasury the *Banque de l'Algérie* was able, up to a point, to make its monetary and credit policy independent of its actual foreign assets and, more generally, of the balance of payments. The latter, indeed, was habitually in deficit because of the structure of the economic system and capital movements, and would repeatedly have forced restrictive policies on the issuing bank, and the consequent diminution of the monetary base would have had immediate repercussions on production and, for that matter, on the growth of banking activities. But again, a price had to be paid. If the French Treasury in the last resort guaranteed the convertibility of the *Banque de l'Algérie*'s notes, it also controlled its activities. In any event, the guarantee was not without limit<sup>1</sup>. Franc credits never went beyond the point

<sup>1</sup> In practice, the Treasury acted as a lender of last resort to which the *Banque de l'Algérie* could turn after using up its own franc assets as well as its credit lines with correspondent banks, including the Bank of France. At that point, the *Banque de l'Algérie* could ask the Treasury either for repayment in French francs of credits accorded to it in Algeria, or else for an advance, which it could not be sure of obtaining. As E. Bloch-Lainé (*op. cit.*, p. 364) explains, the



where the Algerian balance-of-payments deficit began to cause strains and imbalances in the French economy. This was the limit beyond which it became necessary to re-equilibrate the Algerian accounts, most often by the traditional method of adjusting the discount rate.

In these circumstances, the *Banque de l'Algérie* clearly was no more than an operational arm of the Bank of France and the

*Banque de l'Algérie*, having tried all other means of raising the money, was "conduite à s'adresser au Trésor pour lui demander soit le règlement de la dette qu'il peut avoir contractée à son égard en tirant sur le compte d'avances ouvert à son nom chez elle, soit, en l'absence d'une telle dette, avance pure et simple". However, "ces concours du Trésor n'ont nullement un caractère automatique. La Banque n'est pas ainsi à l'abri du risque de ne pouvoir faire face à un moment quelconque à la totalité des demandes de transfert qui lui sont présentées. Ce risque n'est pas du tout théorique si la balance des paiements du pays considéré avec la métropole est constamment déficitaire".

Incidentally, this conversion mechanism must not be confused with the so-called operations accounts, which were first introduced in 1952 and at present are used to keep up the close ties between the French franc and the currencies of the two monetary unions of French-speaking Africa as well as of other countries like Mali and Madagascar. Of the two monetary unions, it will be recalled, one is for Equatorial Africa and Cameroon and was founded in 1960, and the other is for West Africa and dates from 1962; the central banks of both have their headquarters in Paris. Their operations accounts with the French Treasury can be drawn on without limit for maintaining the convertibility of CFA francs into French francs (or, in the case of other countries, of their currencies into French francs).

The operations accounts thus constitute a limitless guarantee of convertibility. In practice, their mechanism does not work in exactly the same way throughout the whole franc zone; for relevant differences, as well as for a description of the West African Monetary Union, see Sergio Bortolani, *The Banking System of Niger*, volume 2 of the series entitled *The Credit Markets of Africa*, Milan, Cassa di Risparmio delle Provincie Lombarde, n.d. [1971], p. 33 ff.

Another means of facilitating, though not ensuring, convertibility, is the so-called *compte d'avances*, which has a pre-established ceiling and is opened not by the Treasury but by the Bank of France. This is nothing more than a credit arrangement between central banks, and therefore does not imply interference by the French monetary authorities with the borrowing country's monetary management, a condition which certainly goes with the operations accounts.

French Finance Ministry, in the broader context of monetary satellism within the colonial economic and political bondage.

This situation was exemplified, first and foremost, by the close ties which linked the Algerian to the French currency and which, until independence, caused the former to follow the latter in all its vicissitudes. This state of dependence was further reinforced by the rules which governed the *Banque de l'Algérie's* sale and purchase of foreign exchange other than French francs; in effect, these led to French francs being the bank's sole reserve assets.

Developments on the Algerian credit market, in their turn, depended very closely on the French credit market. Whenever in France the monetary base was restricted or enlarged, this was directly reflected in Algeria, where the *Banque de l'Algérie* — for reasons of free capital transfer, of the obligation to assure convertibility at a fixed rate, and of the existence of a banking system consisting entirely of foreign banks — had no control over the monetary base at all. The effects indeed were much more marked in the colony than at home, so that Algeria had to bear the brunt of any process of adjustment in France<sup>1</sup>.

(ii) Monetary relations with countries outside the franc zone

The franc zone's internal freedom had its external counterpart in (a) control of commercial transactions, (b) exchange control, and (c) central management and redistribution of member countries'

<sup>1</sup> Some of the French businessmen in Algeria were not slow to complain of this situation, witness P. Pascallon "L'Expérience monétaire algérienne", *op. cit.*, p. 714: "Certains gros importateurs qui ne manquaient pas de percevoir les inconvénients de cette 'perméabilité' n'ont pas hésité à songer à un décrochage du franc algérien par rapport au franc français, notamment en 1924 et en 1946. Les dirigeants français n'ont jamais accepté ce décrochage... De plus, les gros exportateurs de vin s'opposaient à une telle mesure".

foreign exchange assets through an exchange equalization fund, the *Fonds de stabilisation des changes*<sup>1</sup>.

Unlike other countries, Algeria was, for purposes of exchange control, regarded as an integral part of France. Exchange control was the responsibility of the *Banque de l'Algérie*, which thus acted as the local branch of the French Exchange Control Office and in this capacity had to observe and apply strictly all the latter's instructions regarding the control of foreign exchange movements<sup>2</sup>.

Dealings in foreign exchange other than French francs took place on the Paris exchange market and were handled by the Exchange Equalization Fund, which had the monopoly of exchange reserve management (excluding French franc assets) for the whole franc zone and which redistributed the common pool of reserves.

Algeria therefore had no possibility either of managing or using its own foreign assets at will, for they all had to be pooled with the Fund. The latter, on the other hand, undertook to supply such foreign exchange as was needed for the settlement of Algerian debts.

Generally speaking, foreign exchange contributions to the Fund's pool and drawings on it represented two distinct and

<sup>1</sup> "L'existence de la Zone franc se caractérise, vue de l'étranger, par l'uniformité des règles appliquées dans les territoires qui la composent en matière de contrôle des changes et du commerce extérieur, et l'obligation faite à tous ses membres de mettre en commun leurs ressources en devises. La centralisation qui résulte d'un tel système, explicable par la nature des liens politiques qui unissent la métropole aux pays d'outre-mer, fait essentiellement reposer sur le Ministère des finances et des affaires économiques le soin de définir les rapports que la Zone doit avoir avec l'étranger". (E. Bloch-Lainé, *op. cit.*, p. 256). The same author, in Part II, Chapter 1 of the work cited, explains the technical and economic aspects of the system. See also J. Branger, *op. cit.*, p. 145 ff.

<sup>2</sup> The Algerian system was termed "exceptional" in contrast to the normal system elsewhere, which was originally administered by colonial exchange control offices answering to the *Caisse Centrale de la France d'Outre-mer*.

independent operations, and the Fund did not strike any country's net position.

Later, under bilateral agreements with some member countries, separate accounts were kept for their foreign exchange movements, and consequently for their own exchange reserves. The countries concerned thus came to participate in the Fund on somewhat different terms. As of 1963, Algeria's relations with the *Fonds de stabilisation des changes* changed along these lines<sup>1</sup>.

(b) *Credits to the economy*<sup>2</sup>

Two distinct phases may be distinguished in the credit activities of the *Banque de l'Algérie*<sup>3</sup>. The boundary between them corresponds to the bank's transformation, after the last war, from a typical issuing bank into a lender of last resort to the banking system.

From its earliest days, the bank devoted a sizeable part of its loan funds to financing modern agriculture. Much of this credit

<sup>1</sup> See p. 81 below.

<sup>2</sup> Apart from its credits to the economy, of course, the *Banque de l'Algérie* also financed the Treasury. Something has already been said about the Treasury current account with the bank, and about the latter's obligation to advance whatever sums might be necessary for purposes of convertibility. But the *Banque de l'Algérie* was also banker to the state, and as such made interest-free advances to the Exchequer and handled government payments and receipts without charge. The note-issuing privilege, too, had to be paid for, in the form of a tax on notes in circulation and in special cases of a part of annual profits, due to the French government and, during the period of the bank's activities in Tunisia, also to the Tunisian administration. See E. Picard, *op. cit.*, p. 308-313.

<sup>3</sup> Most of the provisions which governed the lending activities of the *Banque de l'Algérie* were modelled on the statute of the Bank of France, though in some cases they were adapted to the requirements of the local economy. A case in point is that the maximum duration of bills discounted was raised to 100 days, and the number of required signatures reduced to two. On the bank's operations see E. Picard, *op. cit.*, p. 313 ff. and P. Pascallon, "L'Expérience monétaire algérienne", *op. cit.*, p. 700 ff.



was for the medium and the long term, and while this helped to make up for the absence of a specialized agricultural credit institute, it also created difficulties for the financial position of the bank itself. This situation assumed crisis proportions during the last twenty years of the nineteenth century, when the fall in the price of wine, the only major marketable agricultural commodity of Algeria, and huge harvest losses caused by natural disasters led to widespread insolvency among the bank's clients<sup>1</sup>.

The *Banque de l'Algérie* furthermore helped in indirect ways to finance the colony's farmers. It sponsored the establishment of local *comptoirs d'escompte*, which discounted bills and then rediscounted them with the *Banque de l'Algérie* and thus acted as an intermediary between the latter and the farmers; the effect was to make bills bankable by furnishing them with the requisite number of signatures, and to provide an alternative source of loan recovery in case the principal debtor defaulted. These discount offices, therefore, depended almost entirely on the rediscount facilities of the *Banque de l'Algérie* and their position was seriously compromised by the crisis which engulfed the latter.

Beginning in 1900, a proper agricultural credit system was gradually set up<sup>2</sup>, and this left the *Banque de l'Algérie* free to concentrate more on the traditional business of financing commercial transactions, and above all trade with France.

With the structural consolidation of the country's banking system and the institutional innovations of the immediate postwar period, the situation at last was ripe for what had hitherto been

<sup>1</sup> On the difficulties encountered by the bank during that period, and on the criticism levelled at its conduct, see E. Picard, *op. cit.*, p. 158-170.

<sup>2</sup> Notably a chain of *Caisses régionales de crédit agricole mutuel* and the central *Caisse Algérienne de Crédit Agricole Mutuel* (C.A.C.A.M.) (see p. 142 ff. below).

merely an issuing bank to be transformed into a central bank. The banks were by now in a much stronger economic position, thanks not least to the intervention on the Algerian credit market of some of the big public and semi-public French banks and financial institutes<sup>1</sup>, and as a result the volume of direct business done by the *Banque de l'Algérie* steadily diminished while the scope for acting as a bankers' banker increased. After the war, furthermore, the *Banque de l'Algérie* was nationalized and, on the French model, the *Conseil Algérien du Crédit* was set up as an advisory body in matters of credit control and supervision of banking activities.

But although the *Banque de l'Algérie* was now doing less direct credit business and instead developing its function as a lender of last resort, it still did not act as a central bank in the strict sense. First of all, the French authorities refused to allow the adoption of certain techniques of monetary control, such as requiring the commercial banks to maintain a specified cash ratio<sup>2</sup>, and in any case the latter were only partially dependent on the Algerian central bank for their supply of liquidity, since they could always refinance themselves with their parent banks in France<sup>3</sup>.

<sup>1</sup> State-guaranteed medium- and long-term loans by the *Crédit National*, the *Crédit Foncier de France* and the *Caisse Nationale des Marchés de l'Etat* were eligible for refinancing by the issuing bank. See P. Pascallon, "L'Expérience monétaire algérienne", *op. cit.*, p. 702.

<sup>2</sup> See P. Pascallon, *ibid.*, p. 703.

<sup>3</sup> It was not until 1958-1959 that the banking system made large-scale use of the *Banque de l'Algérie*'s rediscounting facilities, mainly because the French parent banks at that time began to have their doubts about the future of French business in Algeria and were reluctant to replenish the tills of their Algerian branches.

With the additional constraints deriving from free capital transfers, the *Banque de l'Algérie* clearly had little control over money creation, which in the last instance depended on developments in the French credit market.

### 3. THE STRUCTURE OF THE BANKING SYSTEM<sup>1</sup>

After the foundation of the *Banque de l'Algérie*, as business and production expanded in Algeria, branches of the French deposit and merchant banks began to appear on the scene. They were joined by a few formally Algerian banks which were in fact owned by European ones.

The way the Algerian banking system developed, it was an offshoot and projection of the French banking system and hence very much like it in structure and working methods. The same applies to the rules and control of banking activities.

The main aspects of the banking system's relations with the economy and the *Banque de l'Algérie* have already been described. It remains to look at the structure of the credit system in the years immediately preceding political independence. Thereafter, of course, a number of banks went out of business and those that remained were nationalized.

By 1961, Algeria's credit system had a sizeable network of commercial banks, several merchant banks, a discount house and an organization of co-operative people's banks. Nor were these the sole source of institutional credit. Most of them dated from the

<sup>1</sup> While much of this section rests on information provided by the managements of present Algerian banks, additional material was culled from P. Pascallon, "L'Expérience monétaire algérienne", *op. cit.*, and E. Picard, *op. cit.*, to which reference is made for a more detailed description of the history of the Algerian banking system from its origins to 1961. Here, the pre-independence situation will merely be sketched so as to have a point of departure for describing the changes that have taken place since independence.

nineteenth or the early twentieth century, but later, especially in the fifties, the big public or semi-public credit institutes of France entered the market on a growing scale. Though they did not actually open branches in Algeria, they were authorized by law to operate there. The latest newcomer to the banking system was a sort of development bank, the *Caisse d'Équipement pour le Développement de l'Algérie*, established in 1959 to finance investment projects under the Constantine Plan.

(a) *Commercial banks*<sup>1</sup>

Two groups may be distinguished among commercial banks operating in Algeria, according as they were direct offshoots of French banks or were of essentially local character. The latter group was of negligible weight in the banking system as a whole; it consisted of 16 small private banks including a few discount offices<sup>2</sup>, none of them with any branches.

Banks in the first group, on the other hand, had between them a network of 409 branches working on a continuous or intermittent basis, of which 149 were located in the region of Algiers, 154 in the region of Oran, 83 in the region of Constantine and 23 near the oil fields in the Sahara. Algiers alone had the greatest concentration, with 92 bank premises. The banks belonging to this first group of commercial banks are the following.

*Crédit Foncier d'Algérie et de Tunisie* (C.F.A.T.). Although this bank had its own legal personality, it was in fact a subsidiary

<sup>1</sup> The distinction between commercial and other banks is based on the nature of their main business. The *Crédit Foncier d'Algérie et de Tunisie*, for instance, was not institutionally a deposit bank, but is included among commercial banks because it went in mainly for short-term credit. See also P. Pascallon, *ibid.*, p. 724.

<sup>2</sup> See P. Pascallon, *ibid.*, p. 740-741.

of the *Crédit Foncier de France* set up by the latter in Algiers in 1880. At that time it was called *Crédit Foncier et Agricole d'Algérie*, and it was founded for the express purpose of enabling the parent bank to engage in certain medium- and long-term operations<sup>1</sup>. Later this bank extended its activities to Tunisia and, having taken over the *Crédit Foncier de Tunisie* in 1907, assumed the name of *Crédit Foncier d'Algérie et de Tunisie*.

The C.F.A.T. was Algeria's largest bank. It had a widespread network of 133 branches, and its range of business was broad, as concerns both credit maturities and economic sectors financed.

*Compagnie Algérienne de Crédit et de Banque* (C.A.C.B.). This bank was set up in order to take on the banking activities of the *Compagnie Algérienne*, a combined bank and property company founded in 1877 and operating as such until 1949, when it hived off its banking division.

While not neglecting its parent company's traditional business of financing trade, the C.A.C.B. in time fanned out into a broader field, carefully choosing the most profitable economic sectors and the more important ventures. Its network of 131 branches was second only to that of the C.F.A.T.

*Comptoir National d'Escompte de Paris* (C.N.E.P.). Two branches, one at Algiers and one at Oran, set up by the French parent bank in Algeria after the second world war.

<sup>1</sup> As P. Pascallon, "L'Expérience monétaire algérienne", (*op. cit.*, p. 722-723) explains: "...le Crédit Foncier de France s'était vu accorder par décret du 11 Janvier 1960 l'extension de son privilège à l'Algérie. Mais son crédit se borna, en grande partie, à des prêts aux communes ou à des opérations urbaines, car ses opérations ne pouvaient statutairement s'appliquer qu'à des propriétés de plein rapport alors que les nécessités de la colonisation exigeaient la plupart du temps des prêts pour la constitution et la mise en valeur des exploitations agricoles. Aussi bien, en 1880, sera créée une société filiale du Crédit Foncier de France, le Crédit Foncier et Agricole d'Algérie..."



*Crédit du Nord.* Two branches, one at Algiers and one at Oran, set up by the French parent bank after it obtained, in 1959, authorization to operate in Algeria.

*Crédit Lyonnais.* Having entered Algeria in 1878 with two branches, one at Algiers and one at Oran, the *Crédit Lyonnais* kept expanding both the volume of its business and its geographical coverage, until at the end of 1961 it had a network of 61 branches.

*Société Générale.* Having entered the North African colonial market in 1913 with the foundation of the *Société Générale de l'Afrique du Nord* at Tunis, the parent company set up two branches in Algeria in 1914, one at Algiers and one at Oran, and by 1961 had 18 branches.

*Société Marseillaise de Crédit.* Starting with one branch, at Algiers, in 1920, this bank had a network of 8 branches in 1961, but its Algerian business was altogether on a smaller scale than that of the two preceding banks.

*Banque Nationale pour le Commerce et l'Industrie (Afrique)* (B.N.C.I.A.). The parent bank first entered the Algerian market by acquiring control of the *Banque de l'Union Nord Africaine*, and by the end of 1961 its overseas subsidiary, the B.N.C.I.A., not only had 45 branches in Algeria, but was one of the largest banks on the spot.

*Crédit Industriel et Commercial* (C.I.C.). Four branches in Algeria.

*Barclays Bank (France).* Only two branches in Algeria at the end of 1961.

*Worms et Cie.* One single office, at Algiers.

(b) *Merchant banks*

At the end of 1961, Algeria had three merchant banks, as follows.

*Crédit Algérien.* This was founded in Paris in 1881, for the purpose of promoting agricultural, commercial and industrial development in Algeria. But it was never much interested in commercial credit; at first it concentrated on financing real estate property, and later on infrastructures. In time, the bank extended its business to other French colonies, especially in North Africa. At the end of 1961, it had only one branch in Algeria.

*Banque Industrielle pour l'Algérie et la Méditerranée* (B.I.A.M.). Under this name, the B.I.A.M. dated back only to the nineteen-fifties, but it was the direct, reorganized successor of a much older bank, the *Banque Industrielle de l'Afrique du Nord*<sup>1</sup>. The latter was founded in August 1919 under the auspices of the *Banque de l'Algérie*, whose shareholders subscribed almost the entire capital — to wit, 12 out of 12.5 million francs, not to speak of another 10 million francs of grants and credits from the *Banque de l'Algérie* itself. At the end of 1961, the B.I.A.M. had three houses in Algeria.

*Banque de Paris et des Pays-Bas.* A single branch, at Algiers, of the parent bank which had entered the Algerian market as late as 1954.

<sup>1</sup> According to its statute, the *Banque Industrielle de l'Afrique du Nord* had the following purposes: "prêter son concours à des associations déjà constituées ou à constituer, sous la forme de sociétés ou de participations de toutes natures, civiles ou commerciales, se charger de la constitution de ces sociétés, de l'émission de leur capital, du placement de leurs actions et obligations, accepter tout mandat de contrôle et de surveillance sur les opérations, en un mot constituer, suivre dans leur développement, comme actionnaire ou intéressée de manière quelconque, patronner et contrôler d'autres établissements commerciaux, industriels, agricoles ou financiers".

(c) *Discount houses*

Algeria had only one of these typical money market institutions, the *Compagnie Parisienne de Réescompte*. It had no dealings with the public, but only with other banks, among which it acted as an intermediary in adjusting their cash position. Apart from its own investment in Treasury Bills, the *Compagnie's* assets and liabilities were all with other banks, and highly liquid. As a result of the nationalization of the banking system and the reduction of the number of banks, the *Compagnie* went out of business in 1969.

(d) *People's banks*

Co-operative credit in France was governed by the law of 13 March 1917, and its organization and principles were extended to Algeria by a decree of 12 May 1921. In the next few years people's banks sprang up first at Bône (1922), then at Bougie (1923) and at Algiers and Constantine (1924). They were meant to help small and medium-sized firms with short-term credit, of which they could not get enough from the commercial banks. The new banks were set up with the full support of the public authorities and helped by them with medium- and long-term credits from funds obtained from the *Banque de l'Algérie*.

Nothing much was changed in the system until it was overhauled in 1947 along the same lines as had been done in France earlier, during the twenties. Two new agencies were set up on that occasion, the *Conseil algérien du crédit populaire*, and the *Caisse Centrale Algérienne du Crédit Populaire*. Between them, they formed the apex of a pyramidal credit system with five people's banks at the base: one *Banque Populaire Commerciale et Industrielle* each at Algiers, Oran and Constantine, the *Banque*



*Régionale de Crédit Populaire d'Alger*, and the *Banque Régionale Commerciale et Industrielle d'Annaba*<sup>1</sup>.

The *Conseil algérien du crédit populaire* was the representative in Algeria of the French *Chambre syndicale des banques populaires*<sup>2</sup>, acted as intermediary between it and the *Caisse Centrale Algérienne du Crédit Populaire*, and exercised functions of control and co-ordination in respect of the people's banks. It authorized them, for instance, to engage in certain types of operation or to grant credits in excess of certain amounts, fixed the borrowing rates and the liquidity ratio as well as the amounts to be paid into the *Caisse Centrale*.

The *Caisse Centrale Algérienne du Crédit Populaire*, on the other hand, discharged those functions which in France were incumbent upon the *Caisse Centrale des Banques Populaires* and the *Caisse Centrale de Crédit Hôtelier, Commercial et Industriel*<sup>3</sup>. It acted as a clearing house for the people's banks, whose affiliation with it was compulsory. It also refinanced them, but its credits to them had to be authorized by the *Conseil*. In addition, the *Caisse Centrale* directly extended medium-term credit to small and medium-sized firms in industry, trade and tourism, to which end it used the deposits of the affiliated people's banks as well as Treasury funds.

(e) *The activities of French credit institutes*

A number of public and semi-public French credit institutes were, in time, authorized by law to do business in Algeria within the same specialized fields as in France. They were the *Crédit*

<sup>1</sup> These had a combined network of 22 branches, of which 9 were in the Region of Algiers, 6 each in the Regions of Oran and Constantine, and 1 at Ouargla, in the Sahara Region.

<sup>2</sup> On which see J. Branger, *op. cit.*, p. 277 ff.

<sup>3</sup> On which see J. Branger, *ibid.*, p. 274 ff.

*Foncier de France*, the *Crédit National*, the *Caisse de Dépôts et Consignations*, the *Caisse Nationale des Marchés de l'Etat* and the *Banque Française du Commerce*. Only the last-named actually had branches in Algeria (two of them at the end of 1961).

The *Crédit Foncier de France* worked indirectly through the *Crédit Foncier d'Algérie et de Tunisie* but also extended direct mortgage and other loans to local authorities and, after the last war, entered the business of mobilizing medium-term credits, after the French provisions of 31 January 1944 on the system of distribution and mobilization of medium-term credits had been made applicable in Algeria by the decrees of 9 June and 31 December 1945.

The *Crédit National* handled a certain number of operations on account of the state, and on its own account was active in two fields, namely, long-term credit to firms in industry and trade, and the discount of bills representing medium-term credits granted by the commercial banks. Its activities were largely connected with the Constantine Plan and with hydrocarbon exploration. It extended no new credits after 1962 and in 1967 stopped doing any business in Algeria.

The *Caisse de Dépôts et Consignations* financed mainly local authorities and other public agencies with funds accruing to it from the deposits of a number of ordinary savings banks and the postal savings collected by the *Caisse Nationale d'Epargne*.

The *Caisse Nationale des Marchés de l'Etat* was authorized in 1940 to take part in financing state contracts (*marchés publics*) in Algeria, and the *Banque Française du Commerce Extérieur*, finally, in 1951 opened a branch at Algiers whose main function it was to help commercial banks extend and mobilize import and export credits.

(f) The *Caisse d'Equipement pour le Développement de l'Algérie* (C.E.D.A.)

This was an Algerian public credit institute founded on 17 March 1959 for the purpose of financing the implementation of the Constantine Plan. It took over the activities of the *Fonds d'équipement de l'Algérie*, which had been set up in 1957.

The primary function of the C.E.D.A. was to pool, in a more effective and comprehensive manner than had so far been done, all available financial resources of various origin, such as French and Algerian budget appropriations, Treasury funds, credits from the issuing and other banks, and loans from public or private financial institutions.

Secondly, the C.E.D.A. was in charge of working out annual financial programmes of public and private investment, subject, respectively, to the traditional rules of budget procedure or to those which governed banking under private law. With reference to private industry, moreover, the institute exercised "development" functions by means of low-interest credits, investment grants, etc. In 1959, the C.E.D.A. programme involved financial commitments of 124 billion old francs, of which 2.375 billion were earmarked for credits and grants to industry in 1960, the corresponding figures were 154.5 and 7.485 billion francs.

Once independent, the Algerian government set up a development bank of its own, the *Caisse Algérienne de Développement*, and the C.E.D.A. became an exclusively French credit institute, in charge of promoting the implementation of new projects agreed between France and Algeria and financed by that portion of French budgetary aid which was known as tied aid, *aide liée*. Since 1968 this latter function has been discharged instead by the *Caisse Centrale de Coopération Economique*.

#### 4. CO-ORDINATION OF BANKING AND CREDIT CONTROL

After the second world war the French authorities established a system for co-ordinating banking activities and credit control in Algeria with those in France, due allowance made for the dependent territory's special requirements. To this end they created the *Conseil algérien du crédit* and extended to Algeria the sphere of competence of the *Commission de contrôle des banques* and of the *Association professionnelle des banques*.

The *Conseil algérien du crédit* was modelled on the French *Conseil national du crédit*, and set up by a decree dated 16 January 1947. The same decree defined the conditions of application, in Algeria, of the provisions which in France governed banking activities.

The chairman and deputy chairman of the Algerian Credit Council were, respectively, the Secretary-General of the government of Algeria and the chairman-general manager of the *Banque de l'Algérie*. The other members were appointed by the government from among leading personalities in the Algerian economic and financial world<sup>1</sup>.

Subsequently, by decree of 7 February 1948, two committees were set up within the Council: the *Comité d'organisation*

<sup>1</sup> Membership was as follows:

- (a) The head of the finance department in the Government-General of Algeria;
- (b) 20 government-appointed members, including eight representing local economic activities, and four each representing economic and financial services, banks incorporated in Algeria, and public or semi-public credit institutes;
- (c) The Postmaster General in Algeria;
- (d) The Chief Treasurer of Algeria as a representative of the *Caisse de Dépôts et Consignations*;
- (e) The manager of the *Caisse Algérienne de Crédit Agricole Mutuel*;
- (f) A representative of the French public and semi-public credit institutes (*Crédit National, Crédit Foncier de France, Caisse Nationale des Marchés de l'Etat*).



*professionnelle* concerned with the organization of banking activities, and the *Comité de crédit*, for credit control.

The Algerian Credit Council was endowed, by its constituent decree of 1947, with broad advisory functions and with the right of making proposals on credit and banking to the public authorities. Provision was made, furthermore, for the Council's intervention in case of an extension to Algeria of provisions adopted or in preparation in France.

The conditions of this intervention were defined with reference to the relations between the *Conseil algérien du crédit* and the French *Conseil national du crédit*, and differed according as the intervention had to do with the latter's advisory functions or its powers of control<sup>1</sup>.

As regards the advisory functions, it was laid down that to the extent that the French Council's decisions were relevant to Algeria as well, the Algerian Council should be consulted. On the other hand, the French Council did not need to be consulted in cases when the Algerian one gave its view on problems to be dealt with by government decisions relevant to Algeria alone.

As regards powers of control, there was, again, a difference in the Algerian Council's position according as the decisions concerned were of a general or individual character. In the case of general decisions by the French Council, the Algerian Council had the right to express its views on their application to Algeria and also to suggest appropriate modifications, but it was the French Council which then resolved that the decisions concerned should be applicable to Algeria, possibly with the modifications

<sup>1</sup> These powers of control were of two kinds, termed respectively as of general and individual character. The latter concerned such things as entry in and removal from the register of banks, authorization of bank mergers, and the opening and closing of bank branches. The general controls applied to interbank agreements, banking conditions, common services, liquidity ratios, personnel training and the regulation of competition. See R. Ruozzi, *L'evoluzione strutturale e funzionale del sistema bancario francese*, Milan, Giuffrè, 1966, p. 190.

proposed. Individual decisions relating to banks and financial institutions in Algeria, on the other hand, were not to be adopted without the prior opinion of the Algerian Council.

It is a moot question just how much latitude of decision the Algerian Council ever had. In effect, only its advisory functions were important, and it was the French *Conseil national du crédit* which exercised banking and credit control<sup>1</sup>.

With regard to the *Commission de contrôle des banques* and the extension of its sphere of competence to Algeria, the French law of 16 January 1947 laid down that in any matters concerning the organization of credit and the control of banking activities in Algeria, the Commission's decisions should be valid only subject to the concurrence of the chairman of the *Banque de l'Algérie* and the head of the finance department in Algeria<sup>2</sup>.

The *Association professionnelle des banques*, an executive, consultative and representative body to which all banks had to belong, did not really extend its sphere of competence to Algeria until 1949, when the *Comité des banques d'Algérie* was set up at Algiers. The chairman of this committee was the deputy governor of the *Banque de l'Algérie*, and its functions matched those of the French regional banking committees. It was responsible for notifying Algerian banks of any general decisions taken by the *Conseil national du crédit*, and for considering local problems concerning the exercise of the banking profession. Its relevant conclusions were to be passed on to the *Sous-comité de l'Afrique du Nord* in Paris, then, with the latter's recommendations, to the *Conseil algérien du crédit*, which finally was to transmit them with its own views to the *Conseil national du crédit*.

<sup>1</sup> See P. Pascallon, "L'Expérience monétaire algérienne", *op. cit.*, p. 710.

<sup>2</sup> On the functions of the Banking Control Commission see R. Ruozzi, *op. cit.*, p. 192.

## Chapter II.

### THE DEVELOPMENT OF THE BANKING SYSTEM SINCE INDEPENDENCE

#### 1. THE CENTRAL BANK

A few weeks after Algeria acceded to political independence, the Algerian and French authorities decided on 28 August 1962 to confirm the *Banque de l'Algérie*'s note-issuing privilege for the new state for a period of two months, renewable at most until 31 December 1962. This interim arrangement, under which the Algerian government assumed control of the note issue<sup>1</sup>, followed the principles of economic and financial co-operation under the Evian Agreements of 19 March 1962, and came to an end on 1 January 1963, the day when the new *Banque Centrale d'Algérie* (B.C.A.) opened its doors for business. The bank's structure, organization and functions were defined in its constituent law of 13 December 1962.

<sup>1</sup> Article 2 of the *Protocole confirmant à titre transitoire le privilège d'émission de la Banque de l'Algérie*, of 28 August 1962, provided that: "Le Gouvernement algérien désignera un représentant auprès de la Banque de l'Algérie. Ce représentant assurera la liaison entre le Gouvernement algérien et la Banque dans les domaines de la monnaie et du crédit". Article 3 added: "La mise en oeuvre de la réglementation du crédit en Algérie continue d'être assurée par la Banque de l'Algérie... aux mêmes conditions que précédemment et dans le cadre des instructions établies par les autorités algériennes en liaison avec la Banque de l'Algérie. Les demandes d'autorisation préalable et celles dites d'accord de réescompte éventuel présentées par les banques seront soumises, avant décision, à une commission désignée par le Gouvernement algérien, laquelle pourra déléguer ses pouvoirs à l'un de ses membres. Ces autorisations préalables ou accords de réescompte éventuel ne vaudront, pas plus que précédemment, engagement ferme de réescompte par la Banque de l'Algérie".

(a) *The structure and organization of the Banque Centrale d'Algérie*

The legal status of the *Banque Centrale d'Algérie* is that of an *établissement public national*, a national public corporation endowed with its own legal personality and financial autonomy. Its capital of 40 million new francs, as fixed by the constituent law, was entirely provided by the state.

The bank has its seat at Algiers and a network of thirteen branches<sup>1</sup>. Its organs are the Governor, the Board of Directors and two Auditors.

The Governor is appointed for an indefinite term of office by decree of the Head of State (the President of the Revolutionary Council) upon recommendation by the Minister of Finance. He is replaced by the same method.

The Governor is responsible for the conduct of the Bank's affairs, is its official representative and signs on its behalf. The law requires that he be consulted by the government on all its decisions concerning money and credit, or likely to have repercussions on the country's monetary and credit situation. He is *ex officio* chairman of the Board of Directors, and is assisted by a General Manager directly responsible to him.

The General Manager is appointed by the Head of State upon the proposal of the Governor and with the approval of the Minister of Finance, and can be replaced only by the same method. He assists the Governor in his functions, is responsible for the Bank's internal affairs and for control of its operations, and takes the place of the Governor in case of the latter's absence or disability.

<sup>1</sup> Oran, Mostaganem, Sidi-Bel-Abbès, Tiaret, Tlemcen, Algiers, Blida, Tizi Ouzou, Setif, Bejaïa, Constantine, Skikda and Bône.



The Board of Directors consists, in addition to the Governor and the General Manager, of: (1) four to ten members appointed in the light of the positions they occupy either in economic and financial government departments or in public or semi-public credit or economic institutions; (2) two to five members chosen for their experience in industry, agriculture or trade; (3) two or three members representative of the interests of labour organizations, including one representative of the Bank's own staff. Except for the Governor and the General Manager, whose terms of office have no time limit, all members of the Board of Directors serve for three years and are eligible for reappointment. They are appointed by decree of the Head of State upon the recommendation of the minister in whose department they hold a position or who is responsible for their field of activity.

The Board of Directors is convened by the Governor at least once a month and has broad powers concerning the administration, organization and management of the Bank, with particular reference to the conditions of its transactions with other banks, e.g. the rediscount ceiling, eligibility of public securities for refinancing, rates and commissions<sup>1</sup>. The Board's decisions are taken by simple majority of those present, at least seven being required for a quorum. A two-thirds majority, however, is necessary for profit

<sup>1</sup> Other functions of the Board of Directors are listed in Article 30 of the Statute as follows:

"Le conseil délibère sur l'organisation générale de la Banque centrale et sur l'établissement ou la suppression des succursales et agences. Il approuve le statut du personnel et le régime de rémunération des agents de la Banque centrale. Il arrête les règlements intérieurs de la Banque centrale. Il délibère à l'initiative du Gouverneur sur tous traités et conventions. Il détermine les conditions et la forme dans lesquelles la Banque centrale établit et arrête ses comptes. Il arrête chaque année le budget de la Banque centrale et, en cours de l'exercice, y apporte les modifications jugées nécessaires".

appropriation and also for any decisions regarding the creation, withdrawal or exchange of bank notes, which latter decisions are in addition subject to approval by decree (Article 31 of the statute).

The Bank's two auditors must be chosen from among senior staff of the Ministry of Finance, and are appointed and dismissed by decree of the Head of State upon the proposal of the Minister of Finance. They are, jointly or separately, responsible for supervising the Bank's operations, and report to the Board of Directors, in whose meetings they take part in an advisory capacity. Within three months of the closure of the annual accounts they have to submit a report on the discharge of their own functions to the Minister of Finance and the Governor of the Bank.

*(b) The functions and operations of the B.C.A.*

The *Banque Centrale d'Algérie* has the monopoly of issuing bank notes and coin having force of legal tender in Algeria. By law No. 64-111 of 10 April 1964<sup>1</sup>, a new currency was introduced; it was called the dinar (DA) and its value was fixed at 180 milligrammes of gold, the same as the French franc then in circulation.

The Central Bank is responsible for the management of the country's foreign exchange reserves. It takes part, together with the other competent authorities, in the preparation of laws and regulations concerning foreign exchange transactions and enforces exchange control. It assists the government in its relations with international financial institutions, in arranging foreign loans and in negotiating international payments or exchange agreements; in all these matters it acts as executive agent.

<sup>1</sup> Until that date the *Banque de l'Algérie* was in charge of the money issue on behalf of the B.C.A. (Decree No. 62-158 of 31 December 1962).

It was indeed in the field of external financial relations that the B.C.A. was first called upon to intervene, when the government decided in October 1963 to extend exchange control also to transfers to and from countries members of the franc zone and asked the Central Bank to work out and apply appropriate regulations.

Control and supervision of the banking system are not mentioned explicitly in the B.C.A.'s statute. Before independence, it will be recalled, these were exercised by the French Banking Control Commission, but the latter's functions and powers, together with those hitherto exercised by the French Credit Council through the Algerian Credit Council, were transferred to the B.C.A. by a decree of 28 December 1962.

In practice, control and supervision of the banking system were exercised both by the Central Bank, to which all banks have to submit monthly statements of condition, and by the Ministry of Finance (*Sous-direction du Trésor et du crédit*). This conflict of responsibilities was due to the statutory provisions which placed national banks under the direct supervision of the Finance Ministry<sup>1</sup>, but this problem has now been solved, at least in institutional terms, by the ordinance of 30 June 1971, which

<sup>1</sup> In commenting on the statute of the *Banque Nationale d'Algérie*, and the provision in Article 4 by which that bank is subject to the Finance Ministry's control, A. Tiano (*op. cit.*, p. 512) rightly remarks: "L'article 4 des statuts de cette B.N.A. pourrait même être considéré comme une déclaration de guerre à la Banque centrale".

Actually, this conflict was only one aspect of the more general conflict of powers as between the B.C.A. and the Finance Ministry. For political and economic reasons, it was the latter which really was the country's monetary authority, leaving the Central Bank as the mere technical agent for implementing ministerial decisions on credit. See p. 74 below.

explicitly attributes to the B.C.A. the functions of control and supervision of the banking system<sup>1</sup>.

Finally, the B.C.A. serves as a clearing house and keeps the records of a central risk pool, as the *Banque de l'Algérie* had done before it.

The statutory purposes of the Central Bank are to create and maintain, in the monetary and credit field and in financial relations with the rest of the world, such conditions as are most conducive to the national economy's orderly development, by promoting the mobilization of domestic resources and safeguarding the internal and external stability of the currency. To this end the Bank is charged by the government with the task of monetary and credit control within the framework of the government's economic policy<sup>2</sup>.

Leaving until later the description of how the *Banque Centrale d'Algérie* in practice discharged its functions of controlling the monetary circulation and the distribution of credit flows, let us first look at the institutional and statutory means it had of doing so.

The Bank's statute provides that, barring relations with the Treasury, money-generating credit operations are normally allowed

<sup>1</sup> Article 17 of Ordinance No. 71-47, of 30 June 1971, "portant réaménagement des institutions de crédit", states: "Dans le cadre de sa mission le gouverneur de la Banque centrale exerce, nonobstant toutes autres dispositions, tout pouvoir d'investigation et de contrôle à l'égard des banques et propose au Ministre des finances toute mesure qu'il juge opportune". It was the same ordinance, incidentally, which set up the *Conseil du crédit* and the *Comité technique des institutions bancaires*, of which more below (p. 125-126).

<sup>2</sup> The Central Bank also has advisory functions, in so far as by virtue of Article 36 of its statute it "may propose to the government such measures as, in the opinion of the Governor or the Board of Directors, may exert a favourable influence on the balance of payments, the movement of prices, the state of the public finances and, generally, national economic development". It also informs the government of any matter which, in the view of the Governor or the Board of Directors, is likely to affect monetary stability.



only vis-à-vis the banking system. The B.C.A., therefore, is meant to control the monetary circulation and the distribution of credit by acting as the bankers' banker, to the exclusion of direct dealings with others than banks, except in "exceptional circumstances and when the national interest so requires"<sup>1</sup>.

Rediscounting facilities to banks are governed by a ceiling and by the requirement that banks must obtain the B.C.A.'s "rediscount agreement" (*accord préalable de réescompte*) in advance of any credit they may wish to mobilize with the Central Bank. The Central Bank has powers not only to alter the ceiling at any time, but also to refuse to rediscount any bill notwithstanding a prior rediscount agreement. The latter is thus a necessary, but not a sufficient condition of access to credit of last resort, a matter in which the B.C.A. has wide powers of discretion.

Technically, bills of various categories are refinanced either by rediscount or by taking them "in pawn" (*en pension*) as security for advances. The requirements that bills must meet to be bankable are differentiated according to the nature and maturity of the paper concerned. The discount rate is 3.75 per cent.

By its statute, the B.C.A. is authorized to rediscount, or make advances against, the following categories of bills: (1) Commercial bills relating to domestic sales or exports, bearing three good

<sup>1</sup> The Preamble of the constituent law states: "À la différence de la Banque de l'Algérie, la Banque centrale sera normalement à titre exclusif 'la Banque des Banques'; elle ne pourrait traiter des opérations directes avec des particuliers qu'à titre exceptionnel et pour des motifs relevant de l'intérêt national".

Nevertheless the Central Bank did deal with private clients as a matter of current practice during its early years, when, for reasons mainly connected with the structure and working of the banking system and more particularly of agricultural credit institutes, it financed the socialist farm sector by credits to the *Office national de la réforme agraire* (O.N.R.A.), a public agency concerned with land reform (of which more below, p. 165 ff.).

signatures (including the endorser's) and maturing in less than three months. Instead of one of the signatures documents representing the goods are acceptable, or else an export permit; (2) Bills backing a farm working credit or cash credit, bearing at least two good signatures (including the endorser's) and maturing in not more than three months (extendable up to 12 months, the upper limit of B.C.A. credits); (3) Bills representing medium-term credit granted by banks or authorized financial establishments in order to finance means of production, specified exports or housing construction, provided the bills bear three good signatures (including the endorser's) and mature in less than three months. In this case the B.C.A.'s credit is renewable up to five years.

In addition to rediscounts, the B.C.A. may offer refinancing facilities for public securities<sup>1</sup> declared admissible by the Board of Directors. Refinancing techniques differ according as the securities concerned fall due within less or more than three months. In the first case, the B.C.A. may discount them at 3.5 per cent of their face value (*escompte ferme*), and this facility is available to banks, financial establishments and individuals, though in practice the latter never make use of it. In the second case the sole admissible beneficiaries are banks and credit institutes, and

<sup>1</sup> The only public debt obligations issued by independent Algeria are Treasury Bills and, since 1971, investment bonds (*bons d'équipement*). The former are of three different maturities — 6 months (at 2.75 per cent), 12 months (at 3 per cent) and 24 months (at 3.25 per cent) — and are subscribed solely by banks either for their free investment portfolio or in compliance with the requirement to hold Treasury Bills in an amount matching at least 10 per cent of their sight deposits (on this so-called *plancher d'effets publics* see p. 109 below).

*Bons d'équipement*, in their turn, are of two different maturities — 5 years at 5 per cent, and 10 years at 6 per cent — and their subscription is obligatory for national companies, insurance companies as well as pension and social security funds (see p. 132 below); sales to private savers are promoted by an intensive publicity campaign.

there are three kinds of refinancing facilities: (1) 30-day advances; (2) discount with agreed maturity; (3) pawning for at most 60 days.

Finally, the B.C.A. may, within certain limits fixed by the Board of Directors, purchase and sell on the open market public securities maturing within six months and private bills admissible for rediscount. With respect to the former, there is a statutory limitation which restricts the total amount of public securities purchased and held against credits at any time to at most 10 per cent of current budget revenue during the previous financial year.

Vis-à-vis the Treasury, the Central Bank acts as financial agent<sup>1</sup> and source of funds for the coverage of cash requirements. There are statutory limitations both on the duration and the amount of Treasury borrowing from the Central Bank. Overdrafts on current account are allowed only up to 5 per cent of current revenue during the previous financial year, subject to a maximum duration of 240 days, consecutive or not, in any one calendar year. In practice, however, these limitations were always disregarded and were explicitly abrogated by the supplementary Finance Act for 1965, which empowered the government to determine the amount of the Treasury's debt to the Central Bank (Article 5 of the law of 8 April 1965).

<sup>1</sup> Article 62 of the Bank's statute: "La Banque centrale est l'agent financier de l'Etat pour toutes ses opérations de caisse, de banque et de crédit. Elle assure sans frais la tenue du compte courant du Trésor et exécute gratuitement toutes opérations données au débit ou au crédit de ce compte. Le solde créditeur du compte courant du Trésor n'est pas productif d'intérêts. La Banque centrale assure gratuitement:

- le placement dans le public des emprunts émis ou garantis par l'Etat;
- le paiement concurremment avec les caisses publiques, des coupons des titres émis ou garantis par l'Etat".

## 2. INTERVENTION BY THE MONETARY AUTHORITIES

Algerian legislation refers to the *Banque Centrale d'Algérie* as the "clé de voûte du système bancaire en tant que Banque de réserve" and has indeed endowed it with the means of monetary and credit control. But for all that the bank was not in a position to discharge, fully and independently, the tasks and functions assigned to it by its statute and implied in the very reasons of its creation, and which, at least in Western economies, constitute the *raison d'être* of a central bank.

Nominally presiding over a banking system made up of foreign banks, the *Banque Centrale d'Algérie* had until 1966 no effective power either to control market liquidity creation or to channel credit flows to where they were meant to go — mainly to self-managing agriculture and industry. Even later, when national banks had been set up and foreign banks passed out of private hands, the Central Bank's authority over the banking system still remained theoretical rather than real.

For one thing, the national banks extended little credit to the economy and hence had so much liquid funds that they did not need rediscounts. They were, furthermore, under the direct control of the Ministry of Finance and Planning<sup>1</sup>.

In the second place, while the B.C.A.'s statute was inspired by the principles characteristic of decentralized market economies, the bank in practice worked in rather different ways. In the setting of a collectivist system, where the distribution of real resources and credits was increasingly governed by economic and financial planning, the B.C.A. in effect became an administrative check point for the financial flows generated by the banking system in response to public action tailored to planning requirements.

<sup>1</sup> See P. Pascallon, "Le système monétaire et bancaire algérien. Réalités et perspectives", *Banque*, No. 289, October 1970, p. 872.



Inevitably, therefore, the Central Bank was institutionally subordinated to the government and became the mere technical agent for the implementation of the Finance Ministry's decisions on monetary and credit policy. It was the latter which, in addition to being one of the highest economic authorities, was also the country's true monetary authority.

The government's credit policy was put into effect not by the traditional quantitative means and certainly not according to the philosophy typical of monetary authorities in countries that call their economy free; rather, the methods of credit control were essentially selective and administrative. Two phases may be distinguished in Algerian credit policy, corresponding to the government's changing purposes.

The first phase covers the years 1962 to 1968, from the date of independence to the full nationalization of the banking system. At that time the overriding aim was for the government to acquire effective powers in the country's internal and external monetary affairs and to reactivate the economy's financial circuits, disrupted as they had been by the events preceding independence and also by the structural transformations in production following the new political and economic orientation.

The second phase coincides with economic planning, when the primary need is to have a suitable mechanism by which to control the destination and use of credits to the economy. These tasks were delegated to the banking system and, first and foremost, the Central Bank.

In both cases credit control is of the essence, but its traditional principles and methods do not fit into this different context. As regards the planning phase, it is obvious that to the extent that the financial flows which are to mobilize real resources are determined *a priori*, there is no scope for the classical manipulation

of the cost and volume of credit as a means of stimulating or holding back production. Instead, we find a whole system of rules governing both the financial structure of firms and the conditions of bank lending<sup>1</sup>.

In the first phase, on the other hand, before there could even be a question of effective monetary policy, there were the problems of the behaviour of banks and of the creation of a national banking system as an agent of economic development.

The existing banks' essentially western outlook had in fact nothing whatever in common with the socialist complexion of the economy in which they found themselves operating. It must be added that in the politically fluid situation of the early years of independence and in the face of credit demand on the part of firms whose capital structure and earnings capacity left room for a lot of misgivings — witness the less than brilliant performance of the self-managing firms for a good many years — the banks could hardly be expected to commit their funds in loans entailing high, if not certain, risks of default.

Although, therefore, the banks could have met the financial requirements of the socialist sector of the Algerian economy, they went in for severe credit rationing. Safety first was their motto, and they restricted themselves to such riskless business as guaranteed import and export loans, transfers of funds to abroad and investment in Treasury Bills. They did, however, continue to serve their remaining European clients on the reduced scale still required<sup>2</sup>. In such a situation the reactivation of the

<sup>1</sup> On the methods of financing planned investment see sections 6 and 7 below.

<sup>2</sup> See "La transformation du système bancaire algérien et la Banque Centrale d'Algérie", Algérie Presse Service, *Bulletin économique*, No. 121, November 1968, p. 6.

economy's financial circuits required a profound change in the rationale of the banking system's behaviour rather than mere measures of monetary and credit policy, which would have been powerless in generating a credit expansion to the benefit of Algerian firms. This is the background of the Algerianization of the banking system as a crucial step towards the new state's monetary sovereignty.

In the immediate post-independence period, and pending a structural reorganization of the banking system, the monetary authorities of Algeria did, however, adopt a series of selective measures intended to make the country's economic position less precarious and to give the government effective external monetary powers. These measures concerned (a) exchange control, (b) consumer credit, (c) the pooling and control of public corporation funds, (d) direct intervention by the B.C.A. in the field of agricultural credit through loans to the *Office national de la réforme agraire* (O.N.R.A.), the National Land Reform Board<sup>1</sup>.

(a) *Exchange control: Algeria and the franc zone*

It has been explained earlier that Algeria's membership in the franc zone meant freedom of capital transfers within the zone and control of such transfers in relation to non-member countries. External exchange control was exercised by the *Banque de l'Algérie*, and foreign exchange dealings were handled by the Exchange Equalization Fund on the Paris market.

The Evian Declaration of Principles concerning Economic and Financial Co-operation, on 19 March 1962, confirmed this

<sup>1</sup> See below, p. 168. In addition, the B.C.A. was charged, by decree No. 64-176 of 8 June 1964, with the task of financing self-managing industrial firms, but it does not seem ever to have granted them direct credit.

system in principle, but made some changes in its working so far as Algeria was concerned. The two main points were that Algeria was to continue belonging to the franc zone, but that separate accounts should be kept by the Exchange Equalization Fund for Algeria's own foreign exchange assets.

As regards the first point, there were two possible mechanisms for backing the freedom of transfer, the *comptes d'opérations* and the *comptes d'avances*.

The operations accounts offer a full guarantee of the convertibility of any member country's currency into French francs at the fixed parity. They are French Treasury accounts which can be drawn on without limit in case the country concerned needs more French francs than it has. This system is now in force as between France and the two African monetary unions, that of West Africa and of Equatorial Africa and Cameroon, and also Mali and Madagascar<sup>1</sup>. While it offers a number of advantages to the countries concerned, it inevitably means interference by the French Treasury in their monetary and credit management, and leaves them without real monetary sovereignty (satellite currencies).

The Algerian authorities did not want that arrangement, and chose instead the system of the *comptes d'avances*. This works through two accounts opened by the Bank of France in the name of the *Banque Centrale d'Algérie*. The first is credited with transfers to Algeria and debited with those from Algeria; the second constitutes a credit line up to a pre-established amount, and to this extent offers a limited guarantee of convertibility. The two accounts are interconnected, in so far as the B.C.A. can draw on the second when the first shows a debit balance, and uses credit balances on the first to reduce its liabilities on the second.

<sup>1</sup> See above, p 46 fn. 1.



Up to a point, this system gave Algeria monetary independence<sup>1</sup>. The *comptes d'avances* were duly opened and the Franco-Algerian declaration of 19 January 1963 reaffirmed the commitment to maintain freedom of transfer.

But this latter lasted only a few months. It simply did not meet the economic needs of the new state. Something had to be done to stop the large-scale capital flight<sup>2</sup> and also to restrict imports of goods and services to those strictly necessary for economic development and compatible with the supply of foreign exchange. In these circumstances the monetary authorities introduced a number of more stringent controls on commercial and financial transactions with the rest of the world.

First of all, a decree of 9 March 1963 made the right to handle foreign exchange operations subject to authorization by the Finance Ministry. This authorization was given unconditionally *ex officio* to the B.C.A., but only on a provisional basis to other banks.

<sup>1</sup> Even so the system was not fully satisfactory, as P. Pascallon and J.F. De Laulanie explain ("L'Expérience monétaire algérienne: du satellisme à l'indépendance monétaire", *Revue algérienne des sciences juridiques, économiques et politiques*, No. 1, March 1971, p. 17): "Plus intéressant que le système du compte d'opérations pour la B.C.A., ce système du compte d'avances soulevait néanmoins à terme des difficultés voisines. Au lieu de placer la B.C.A. sous la dépendance du Trésor français, il soumettait la poursuite illimitée des opérations de change de l'institut d'émission au bon vouloir de la Banque de France".

<sup>2</sup> This was due not only to the departure of so many Europeans, but also to Algerians themselves transferring their funds abroad. It has been calculated that something like 750 million francs left the country in June 1962 via bank transfers alone (see A. Tiano, *op. cit.*, p. 528). Algerian sources also say that the capital flight reduced bank deposits by 40 per cent, with the result that in 1963 the monetary circulation dropped appreciably and credits to the economy diminished by an estimated 50 billion old francs (see "Monnaie et crédit: instruments de la planification financière et du développement économique", Algérie Presse Service, *Bulletin Economique*, No. 108, March 1968, p. 4).

Subsequently, the decrees of 16 May 1963 and 12 September 1963 introduced a number of import and export controls, as well as a system of permits and quotas for foreign trade. Finally, the decree of 19 October 1963 extended exchange control to countries in the franc zone, and this put an end to freedom of transfer and led to Algeria's withdrawal from the franc zone<sup>1</sup>.

Without the basic condition of membership, Algeria could henceforward be regarded as belonging to the franc zone only in the sense that it is still linked with France by financial and economic co-operation agreements<sup>2</sup>.

Algeria at last had monetary sovereignty. The parity of the dinar was expressed in terms not of the French franc, but of gold — though in fact the par value of 180 milligrammes of fine gold does correspond to that of the French franc current at the time. Algeria has since diversified its reserve assets and has thus dissociated them from the vicissitudes of the French franc. Unlike the countries with "satellite currencies", Algeria did not follow the French franc into devaluation in August 1969, but kept the original gold parity of the dinar unchanged<sup>3</sup>.

The provisions of October 1963 were later tightened by others designed to enlarge the area of control and to reduce or

<sup>1</sup> However, preferential treatment was accorded to specified transactions and to certain countries in the franc zone. For instance, exchange control was at first not applied to the operations and transfers of oil and hydrocarbon companies, but only later, under rules established in 1964 and by the Franco-Algerian oil agreement of 29 July 1965.

<sup>2</sup> Even these links were much weakened in recent years, in consequence mainly of the nationalization of French hydrocarbon interests, the closure of the French market to Algerian wine and Algeria's new relations with eastern countries.

<sup>3</sup> 1 dinar = 1.12499 French francs. However, the Algerian dinar is not quoted on foreign exchange markets and is negotiable against French francs at a fixed rate (see P. Pascallon and J. F. De Laulanie, *op. cit.*, p. 49).

abolish preferential arrangements. Finally, as of 1 November 1967, the Ministry of Finance and Planning revoked the foreign banks' authorization to deal in foreign exchange (Notification No. 53).

The second main point established by the afore-mentioned Evian Declaration was that Algeria's foreign exchange assets were to be recorded and managed separately by the Exchange Equalization Fund.

Purchases and sales of foreign exchange other than French francs and the currencies of the franc zone still go through the Paris exchange market, but are accounted for in U.S. dollars (as units of account) on a separate B.C.A. account with the *Fonds de stabilisation des changes*. This account is debited for foreign exchange purchases, and credited for foreign exchange sales to the Fund<sup>1</sup>. When this separate account was opened by the French authorities on 19 January 1963, it was initially credited with an agreed amount of 60 million dollars. Drawing rights up to the same amount were thus available for the coverage of Algeria's foreign exchange deficit.

The final step towards Algeria's effective control of its external monetary affairs came with the hydrocarbon agreements of 29 July 1965. By virtue of Annex XII to that convention the B.C.A.'s French franc assets are freely convertible into other currencies, and this not only gives the Central Bank more discretion with respect to the diversification and management of exchange reserves, but also finally emancipated the Algerian from the French currency<sup>2</sup>.

<sup>1</sup> Before independence, Algeria's foreign exchange dealings were not separately recorded; assets had to be pooled with the Fund, which in counterpart made available such foreign exchange as was needed to settle transactions with countries outside the franc zone.

<sup>2</sup> See P. Pascallon and J. F. De Laulanie, *op. cit.*, p. 45.

*(b) Control of consumer credit*

Consumer credit controls were established very early by the monetary authorities of Algeria, in an effort to reduce the adverse effects on the balance of payments and to make sure that the country's financial resources were used to best effect. On 31 July 1963, the Central Bank, in its "decision" No. 63-01, instructed banks and financial establishments to observe a number of rules in financing instalment purchases of consumer and even of capital goods. These rules concerned the amount of the down payment and the number of permissible instalments, both differentiated according to the nature of the good concerned and according as it was of domestic manufacture or imported.

More drastically and in accordance with the targets of the four-year plan 1970-1973, the Finance Act for 1970 altogether prohibited all categories of consumer credit. Demand for consumer goods, incidentally, was kept down not only by credit regulations, but also by taxation and physical import restrictions.

*(c) The pooling and control of public corporation funds*

Because of the disruption of the economy's financial circuits, the monetary authorities had to intervene directly in financing national companies. But their financial requirements were covered by continuous money creation, with adverse results for the country's economic and monetary situation.

As new cash kept accruing to the banks, it generated ill-directed credit flows which aggravated the existing imbalances in the economic system and led to further capital flight. Part of this money was invested in short-term public securities and thus reverted to the Treasury and from there once more reached the economy, together with such new money as was created to cover the gap between requirements and resources. In the early post-



independence years, therefore, bank liquidity was very high and at the same time the Central Bank kept creating money for Treasury account, so as to finance companies unable to obtain credit from the banks<sup>1</sup>.

This situation produced two kinds of consequences. In the first place, the Central Bank was kept outside the circuits by which the economy was financed and, because of the high liquidity of the banking system, lost any chance of quantitative and qualitative credit control. Secondly, the banks were lending their money for purposes entirely different from those desired by the government, with the result that the domestic imbalances got worse and so, because of consumer credit, did the balance of payments.

In an effort to contain the growth of the banking system's monetary base and also to control the use of credits by national companies, the monetary authorities adopted a number of measures obliging public and semi-public enterprises to deposit their cash funds with the Treasury.

Decree No. 63-407 of 14 October 1963 laid down to whom this obligation was to apply<sup>2</sup>, and the subsequent order of 13 July 1964 made it effective as of 31 July, by which date all the

<sup>1</sup> "En 1962-1963 l'Etat algérien a été conduit à faire du financement direct à partir du trésor ce qui devait compromettre l'équilibre des finances publiques. En 1964, c'est l'institut d'émission qui a financé le secteur agricole socialiste provoquant par là des tensions inflationnistes. Cette situation était aberrante d'autant plus qu'il y avait pléthore des ressources financières..." ("Monnaie et crédit etc.", *op. cit.*, p. 6).

<sup>2</sup> To summarize the lengthy list given in Article 1 of the decree, it was to apply to public offices and agencies both of administrative and economic character, to national companies, and companies in mixed public and private ownership with either a majority or a minority state holding.

relevant funds had to be transferred from the banks to special Treasury accounts. As an exception, public corporations in industry and trade were allowed to keep up to 30 per cent of their monetary assets in current accounts at banks. The resulting loss of deposits to the banking system has been estimated at 40 to 50 billion old francs, or roughly half the previous total.

With the operational capacity of the banking system thus crippled, and pending its structural reorganization, the Treasury became the great pool for the collection and distribution of much of the economy's financial funds. This situation came to an end with the foundation of the *Banque Nationale d'Algérie* (B.N.A.) and subsequent new legislation on the centralized management of public corporation funds.

The new rules were introduced by a decree of 25 July 1967, under three main headings.

(1) The decree made operative the provisions of paragraphs 2 and 3 of Article 9<sup>1</sup> of the law (No. 66-178, of 13 June 1966) by which the B.N.A. was set up, and which make it the sole financial agent of self-managing and national companies as well as of public offices and agencies other than those of an administrative or financial character (which remained within the Treasury's competence). An exception was made only for enterprises falling

<sup>1</sup> "La Banque nationale a l'exclusivité du service financier des entreprises et exploitations du secteur socialiste et des groupements professionnels; leurs disponibilités et toutes leurs opérations financières seront confiées à la Banque nationale à partir d'une date dans les conditions qui seront déterminées par arrêté du Ministre des finances et du plan" (par. 2). "Les offices et établissements publics, dont l'objet n'est pas de nature financière, et les sociétés nationales, de même que leurs filiales, sont tenus d'opérer par l'entremise de la Banque nationale toutes leurs opérations bancaires. Il en est de même des sociétés mixtes et de leurs filiales..." (par. 3).

within the specialized field assigned to the *Crédit Populaire d'Algérie* (C.P.A.) according to Article 7 of its statute <sup>1</sup>.

(2) All companies in mixed public and private ownership must keep an account with the B.N.A., and, if the state holding is at least 50 per cent, only with the B.N.A.

(3) Consequently, no other banks may accept deposits from any of the companies concerned, except by authorization of the B.N.A.

The purpose of these regulations was twofold. They were to give the central authorities ultimate control of the use of the national companies' monetary resources, and at the same time to pool a sizeable proportion of the banking system's reserves in one single state bank, the B.N.A., which was conceived and organized as an instrument of financial planning. The monetary authorities thus gained direct control over the distribution of a large part of credit to the economy, especially since the foreign banks thus lost much of their operational capacity.

Once the banking system was fully nationalized, the whole matter was finally settled by the Finance Act 1970. With reference to the principles of financial planning, the regulations contained in Article 18 of that law required all national companies as well as all public institutions in industry and trade to deal with only one bank as regards both their deposit and their current accounts. The time limit allowed for making the necessary arrangements was 1 January to 31 March 1970.

Turning finally to the more general matter of the economy's total supply of financial assets, as shown in Table 16 for the

<sup>1</sup> In particular, hotels and other companies in the tourist industry, co-operatives and self-managing firms in sectors other than agriculture. See p. 113 below.

TABLE 16

FINANCIAL ASSETS AND THEIR COUNTERPARTS, 1960 TO 1968  
(end-year figures, in million dinars)

Assets	1960	1961	1962	1963	1964	1965	1966	1967	1968
A S S E T S									
1. Money assets									
Bank notes in circulation	2,275	2,418	2,227	2,280	2,570	2,746	2,831	3,226	
Coins in circulation	42	43	38	38	35	37	28	32	
Sight deposits	3,057	2,933	1,706	1,601	1,953	2,006	2,601	3,517	4,820
of which:									
at banks	2,388	2,201	1,351	1,288	1,468	1,483	1,977	2,897	4,397
post office current accounts	613	646	325	275	368	330	348	396	423
at the Treasury	56	86	30	38	117	193	276	224	—
Total 1	5,374	5,394	3,971	3,919	4,558	4,789	5,460	6,775	8,537
2. Near-money assets									
Time deposits, fixed-term notes, savings deposits	569	348	145	88	84	106	219	460	985
Grand total (1 + 2)	5,943	5,742	4,116	4,007	4,642	4,895	5,679	7,235	9,522



1. <i>Credits to the Treasury</i>	C O U N T E R P A R T S									
	12	11	49	99	954	1,242	1,092	895	...	...
Central bank										
Treasury securities	529	442	—	205	252	404	495	860	...	...
Firms and individuals	710	776	393	351	520	560	652	652	...	...
Total 1	1,251	1,229	442	655	1,726	2,206	2,239	2,407	2,830	
2. <i>Credits to the economy</i>										
	12	11	49	99	954	1,242	1,092	895	...	...
Central bank	1,253	1,243	1,468	1,300	1,087	1,206	1,142	788	...	...
Banking system	2,053	1,879	1,173	847	1,026	1,134	1,322	2,131	...	...
Total 2	3,306	3,122	2,641	2,147	2,113	2,340	2,464	2,919	3,943	
3. <i>Gold and foreign exchange (net)</i>										
	12	11	49	99	954	1,242	1,092	895	...	...
Gold and foreign exchange (net)	1,302	1,531	911	1,131	872	776	1,222	1,925	2,350	
4. <i>Adjustments</i>										
	12	11	49	99	954	1,242	1,092	895	...	...
Adjustments	83	— 140	122	74	— 68	— 427	— 246	— 16	399	
Grand total (1+2+3+4)	5,943	5,742	4,116	4,007	4,643	4,895	5,679	7,235	9,522	

Source: Ministère d'Etat chargé des Finances et du Plan, Sous-direction des statistiques, *Statistiques financières*, 1968, p. 161-162.

period 1960 to 1968, it will be seen that an initial sharp decline, due mainly to capital transfers abroad, was followed by a reversal of trend in 1964. Taking only the years of independence, the sum of money and near-money assets rose from 4.1 billion dinars in 1962 to 9.5 billion in 1968, which corresponds to an annual average increase of 15 per cent. Within the total, there is evidence of major changes of composition in the last few years of the period concerned. The note circulation rose sharply from 2.8 billion dinars in 1966 to 3.2 billion in 1967. Sight deposits followed up their initial decline in the years 1960 to 1963 with rather stronger rises; they increased by 29.7 per cent in 1966 to 2.6 billion, by 35.2 per cent in 1967 to 3.5 billion, and by 37 per cent in 1968 to 4.8 billion dinars. Among sight deposits, those with banks rose much faster after 1965 than those in Post Office current accounts, the respective increases being 33.3 and 5.5 per cent in 1966, 46.5 and 13.8 per cent in 1967, and 51.8 and 6.8 per cent in 1968.

The sharpest increases of all, however, occurred in near-money assets: 106.6 per cent in 1966, 110 per cent in 1967 and 114 per cent in 1968.

One final point of interest in the composition of the economy's financial assets is the very marked preference for holding currency, as shown by the financial ratios in Table 17.

Among the counterparts to the economy's financial assets, the most striking change is the growth of credits to the Treasury from 0.4 billion dinars in 1962 to 2.8 billion in 1968. Compared with this high average rate of increase of 38.3 per cent annually, credits to the economy rose irregularly by 10.7 per cent in 1965, 5.3 per cent in 1966, 18.5 per cent in 1967 and 35 per cent in 1968.

TABLE 17

## PRINCIPAL FINANCIAL RATIOS, 1962 TO 1968

Ratios	1962	1963	1964	1965	1966	1967	1968
$\frac{\text{Currency}}{\text{Money deposits}}$	1.32	1.44	1.30	1.38	1.09	0.92	0.77
$\frac{\text{Currency}}{\text{Money assets}}$	0.57	0.59	0.57	0.58	0.52	0.48	0.43
$\frac{\text{Currency}}{\text{Money} + \text{near-money assets}}$	0.55	0.57	0.56	0.56	0.49	0.45	0.39
$\frac{\text{Money deposits}}{\text{Money} + \text{near-money assets}}$	0.41	0.39	0.42	0.40	0.45	0.48	0.50
$\frac{\text{Near-money assets}}{\text{Money} + \text{near-money assets}}$	0.04	0.04	0.02	0.04	0.06	0.07	0.11

### 3. REORGANIZATION OF THE BANKING SYSTEM

Throughout the years 1962 to 1968, the Algerian banking system went through a process of reorganization by which the government intended to adapt its structure and functions to the new purposes of economic policy. This reorganization proceeded in two distinct stages.

First, during the years 1962 to 1965, three Algerian credit institutes, two wholly and one partly in public ownership, were set up alongside the network of foreign banks, and steps were taken to emancipate the co-operative people's banks from French tutelage. The second stage, during the years 1966 to 1968, involved the nationalization of virtually the whole banking system by the incorporation of existing banks into three new Algerian ones set up under the direct auspices of the public authorities.

By the end of this process, the 18 banks (deposit, merchant and people's banks) still operating in Algeria after the upheavals that had preceded its independence, had been replaced by a banking system consisting of only seven banks — five Algerian public ones and two foreign ones. Of the public Algerian banks, three were deposit banks: the *Banque Nationale d'Algérie* (B.N.A.), the *Banque Extérieure d'Algérie* (B.E.A.) and the *Crédit Populaire d'Algérie* (C.P.A.). So were the two remaining foreign banks, the *Banque Populaire Arabe* and the *Compagnie Française de Crédit et de Banque*, both negligible in comparison both with the banking system as a whole and with any one of the national banks. The other two public institutes are a development bank, the *Caisse Algérienne de Développement* (C.A.D.), and a savings bank, the *Caisse Nationale d'Epargne et de Prévoyance* (C.N.E.P.).



(a) *The first stage: 1962 to 1965*

The first government measures affecting the structure of the Algerian banking system were those of 9 March 1963, which nationalized the *Caisse Centrale Algérienne du Crédit Populaire* and the *Conseil algérien du crédit populaire*, causing the latter to cut its links with the French *Chambre syndicale des banques populaires*. The Algerian people's banks thus became the first credit institutes in public ownership.

These banks were in a critical situation at the time. They had suffered more than the foreign banks from the political and economic troubles of the immediate post-independence period, such as loss of deposits, widespread insolvency, departure of senior staff, etc. Their deposits plunged from 20 to 5 billion old francs, they had 8 billion of unrecoverable loans on their books, and the loss of most of their European staff jeopardized the working of the whole system. One of the five people's banks, the *Banque Régionale du Crédit Populaire d'Alger*, was forced to close down, and the others carried on only thanks to financial aid by the state. The *Caisse Centrale* appeared somewhat less compromised, since much of its funds came from public sources<sup>1</sup>.

After their nationalization, the people's banks lent mostly to firms subject to credit rationing by the foreign banks, and more

<sup>1</sup> Years later, when the C.P.A. was inaugurated on 30 December 1966, the Minister of Finance and Planning, Kaïd Ahmed, explained that "au niveau de la Caisse Centrale, la situation était un peu moins préoccupante. On constatait, bien sûr, une grave détérioration dans le niveau de remboursement des prêts à moyen et long terme. Mais ces prêts avaient été financés en grande partie par des avances du Trésor et non à l'aide de dépôts. On n'avait donc pas à craindre que des retraits massifs viennent ébranler davantage l'institution et la mettre en état de crise financière". Ministère de l'Information, *Actualité et Documents*, No. 67, January 1967, p. 11).

particularly to self-managing firms in industry and trade. But there was a clear need for a national credit institute specializing in medium- and long-term credit to the public sector of the economy, and also to private companies in case of investment projects judged to serve the purposes of economic development. To fill this need, the *Caisse Algérienne de Développement* was set up in 1963, as a development bank under direct public control. The C.A.D. also took over the functions previously exercised by the great French credit institutes (*Crédit National*, *Caisse Nationale des Marchés de l'Etat* and *Caisse de Dépôts et Consignations*) and by the *Caisse d'Équipement pour le Développement de l'Algérie*<sup>1</sup>. But although it was endowed with wide powers for the mobilization of national and foreign financial resources and for their distribution to public and private enterprises in various sectors of the economy, and indeed had the status of a national development bank, the C.A.D. never had a chance to act as such and to discharge the functions assigned to it by law. It never was independent, but uses budgetary funds to finance such public investment as they have been appropriated for; the projects concerned might be infrastructures or directly productive investment<sup>2</sup>, but few credits have ever been extended for the development of genuine productive enterprise<sup>3</sup>.

The second national credit institute to be set up was a savings bank, the *Caisse Nationale d'Épargne et de Prévoyance*, the date

<sup>1</sup> See above, p. 61.

<sup>2</sup> The decree No. 63-182, of 16 May 1963, put the C.A.D. in charge of the financial management of public investment programmes. From 1966/1967 on, it was responsible only for directly productive public investment. See below, p. 121.

<sup>3</sup> For the investment policy of development banks, see M. Onado, "Le banche di sviluppo dei Paesi africani - Aspetti istituzionali", *Scritti in onore di Giordano Dell'Amore*, Milan, Giuffrè, 1969.

of whose foundation is 10 August 1964. The purpose of the C.N.E.P. is to promote the formation and mobilization of household savings; on the lending side, it finances construction, lends to local authorities and extends what is called "social credit". The creation of this savings bank brought to an end the previous system based on a few ordinary savings banks and the *Caisse Nationale d'Epargne* on the French model.

As regards changes in the network of commercial and merchant banks in the early post-independence years, several banks withdrew altogether from Algeria or at least closed some of their branches when many of their staff and more generally of French entrepreneurs returned home because of the upheavals surrounding independence, not to speak of the political situation, the economic crisis and the tension which had arisen between financial institutions and the public authorities. On the other hand, two new banks appeared on the scene in 1963 and 1964. One of them was the *Banque Populaire Arabe*, in which the *Banque Commerciale Arabe* held 75 per cent of the capital while the rest was in private Algerian hands, and the other the *Banque Algérie-Misr*, an offshoot of the *Banque Misr* with 61 per cent of the capital contributed by the Algerian state.

Beginning with 1966, foreign banks were gradually taken over by three newly-established national commercial banks.

*(b) The second stage: 1966 to 1968*

Three public Algerian commercial banks were set up in the years 1966 to 1968. They are the *Banque Nationale d'Algérie*, the *Crédit Populaire d'Algérie* and the *Banque Extérieure d'Algérie*. In time, they took over all but two of the foreign banks.

The *Banque Nationale d'Algérie* (B.N.A.) was the first of the newcomers. It was set up on 13 June 1966 and at once, on 1 July 1966, took over the *Crédit Foncier d'Algérie et de Tunisie*. Later, it took over the Algerian activities of the *Crédit Industriel et Commercial* (1 July 1967), the *Banque Nationale de Paris* (1 January 1968) and the *Banque de Paris et des Pays-Bas* (1 June 1968)<sup>1</sup>.

The B.N.A. is much the biggest Algerian bank and, moreover, occupies a key position in the strategy of financial planning. From the outset, it had a monopoly of dealings with public enterprises and the socialist sector, and since 1 October 1968 has also had the monopoly of agricultural credit.

The second new commercial bank, the *Crédit Populaire d'Algérie* (C.P.A.) was set up on 29 December 1966 by the merger of the five existing people's banks, the *Banque Populaire Commerciale et Industrielle d'Alger*, the *Banque Populaire Commerciale et Industrielle de l'Oranie*, the *Banque Populaire Commerciale et Industrielle du Constantinois*, the *Banque Régionale du Crédit Populaire d'Alger*, and the *Banque Régionale Commerciale et Industrielle d'Annaba*. At the same time, the *Caisse Centrale Algérienne du Crédit Populaire* was dissolved, and the *Conseil algérien du crédit populaire* was allowed to carry on only to the extent of liquidating such assets and liabilities of the defunct people's banks as were not taken over by the C.P.A. In 1968

<sup>1</sup> The B.N.A. in addition took over, early in 1968, the *Comptoir d'Escompte de Mascara*, and as of 1 October 1968 also the previous agricultural credit institutes — the *Caisse Algérienne de Crédit Agricole Mutuel* together with its regional and local affiliates, as well as the agricultural credit section of the *Caisse Centrale des Sociétés Agricoles de Prévoyance*, which was dissolved by ordinance No. 68-534 of 24 September 1968.



the C.P.A. took over two more banks, the *Banque Algérie-Misr* on 1 January, and the *Société Marseillaise de Crédit* on 30 June.

The C.P.A. specializes on credit to small and medium-sized firms, both private and self-managing, in industrial crafts, tourism and fisheries. It also finances non-agricultural co-operatives and a few national companies, mainly in the tertiary sector. Finally, it has the monopoly of financing hire-purchase sales, as well as of certain categories of loans to ex-servicemen (*anciens moudjahidine*).

Finally, the nationalization of the banking system culminated in the establishment of the *Banque Extérieure d'Algérie* (B.E.A.) on 1 October 1967. This bank started life by incorporating, on 12 September 1967, the already nationalized *Crédit Lyonnais*, which in turn had taken over the Algerian subsidiary of the *Banque Française du Commerce Extérieur*. In the following year, 1968, the B.E.A. took over all the remaining major foreign banks, that is, the *Société Générale* on 16 January, Barclays Bank (France) on 28 April, the *Banque Industrielle pour l'Algérie et la Méditerranée* on 26 May, and the *Crédit du Nord* on 31 May. The specialized field of the B.E.A. is the same as that of most of the banks it incorporated, namely, foreign transactions and financial services.

The changes described above are illustrated in Table 18, which shows the composition of the Algerian banking system in 1965 and at the end of 1968, after all the mergers and takeovers. Since then the number of banks in Algeria has remained the same, barring only the disappearance of the *Compagnie Parisienne de Réescompte*, a discount house which closed its doors in 1969 because, with only a handful of banks left, money market business had dwindled away.

TABLE 18  
TIME TABLE OF NATIONALIZATION OF THE BANKING SYSTEM, 1965 TO 1968

Composition of the banking system, 1965	Takeover by		
	B.N.A. (founded 13.6.1966)	C.P.A. (founded 29.12.1966)	B.E.A. (founded 1.10.1967)
Crédit Foncier d'Algérie et de Tunisie	1.7.1966		
Compagnie Algérienne de Crédit et de Banque <sup>(1)</sup>			
Comptoir National d'Escompte de Paris			
Banque Nationale pour le Commerce et l'Industrie — Banque Nationale de Paris <sup>(2)</sup>	1.1.1968		
Banque Française du Commerce Extérieur <sup>(3)</sup>			
Crédit Lyonnais			12.9.1967
Société Générale			16.1.1968
Société Marseillaise de Crédit		30. 6.1968	
Crédit Industriel et Commercial	1.7.1967		
Barclays Bank (France)			28.4.1968
Banque Industrielle pour l'Algérie et la Méditerranée			26.5.1968
Banque de Paris et des Pays-Bas			
Compagnie Parisienne de Résecompte	1.6.1968		
Crédit du Nord			31.5.1968
Banque Populaire Commerciale et Industrielle d'Alger		29.12.1966	
Banque Populaire Commerciale et Industrielle de l'Oranie		29.12.1966	
Banque Populaire Commerciale et Industrielle du Constantinois		29.12.1966	
Banque Régionale Commerciale et Industrielle d'Annaba		29.12.1966	
Banque Régionale du Crédit Populaire d'Alger <sup>(4)</sup>		29.12.1966	
Banque Populaire Arabe			
Banque Algérie-Misr		1. 1.1968	

<sup>(1)</sup> Transformed in 1967 into the *Compagnie Française de Crédit et de Banque*.

<sup>(2)</sup> In 1966 the *Banque Nationale de Paris* was founded in France by the merger of the B.N.C.I. and the C.N.E.P. (decree of 28 May 1966).

<sup>(3)</sup> Taken over by the *Crédit Lyonnais* before the latter's incorporation into the B.E.A.

<sup>(4)</sup> Closed down in 1962.

#### 4. THE OVERALL SITUATION OF THE BANKING SYSTEM

As a background to a detailed discussion of each separate bank, the following brief survey deals in more general terms with the organization and working of the credit system, with special reference to commercial banks.

The capital of all three deposit banks was provided by the state in the form of an endowment fund<sup>1</sup>, and all three are subject to rather far-reaching and detailed government supervision, mainly via the Finance Ministry. This could hardly be otherwise, given that the banking system is conceived as part and parcel of the planning mechanism. The B.N.A., the B.E.A. and the C.P.A. may be regarded as the finance offices of a vast economic system run in part by the entrepreneur state and in part by socialist enterprise; they are, however, kept out of state bureaucracy, in deference to the new principles of decentralized decision-making introduced alongside with the current four-year plan 1970-1973.

By the end of 1968, the three banks between them had a network of 125 branches handling ordinary credit, plus 66 B.N.A. offices for agricultural credit<sup>2</sup> adding up to 191; a year later the corresponding figures were 126 + 69, totalling 195. All the banks have their seat in the capital, which, together with the whole region of Algiers, also has the greatest concentration of branches (see Table 19). With 58 bank branches at the end of 1969, the region of Algiers accounted for 46 per cent of the total network, compared with 33 branches (26 per cent) in the region

<sup>1</sup> The B.N.A. has issued some shares as well, but in negligible amount.

<sup>2</sup> In 1968, the B.N.A. became responsible for the existing regional and local agricultural credit network, whose units are grouped in 11 control regions - Boufarik, El-Khemis, Constantine, Bône, Oran, Tlemcen, Tiaret, Mascara, Skikda, Batna and Setif.

TABLE 19

REGIONAL DISTRIBUTION OF THE BANKING NETWORK, 1967 TO 1970

Region	1967				1968			
	B.N.A.	B.E.A.	C.P.A.	Total	B.N.A.	B.E.A.	C.P.A.	Total
Algiers	...	...	10	...	38	6	14	58
Constantine	...	...	11	...	18	5	9	32
Oran	...	...	7	...	19	3	13	35
Total	...	...	28	...	75	14	36	125

Region	1969				1970			
	B.N.A.	B.E.A.	C.P.A.	Total	B.N.A.	B.E.A.	C.P.A.	Total
Algiers	37	6	15	58	...	7	17	...
Constantine	19	5	9	33	...	5	9	...
Oran	17	5	13	35	...	5	14	...
Total	73	16	37	126	...	17	40	...

of Constantine and 35 (28 per cent) in the region of Oran. These figures do not, of course, include the B.N.A.'s agricultural credit offices. Even without them, the B.N.A. has much the largest network, with 73 branches, or 57 per cent of the total, at the end of 1969. In second place, the C.P.A. had 37 branches at the same date, and the B.E.A., finally, had 16.

But the credit system has far wider coverage than the extent of the banking network suggests, for the *Caisse Nationale d'Epargne et de Prévoyance* accepts savings at some 900 post offices throughout the country, in addition to its own eight agencies.

The clustering of bank branches around three growth poles fits perfectly into the economic planners' model of economic development and corresponds to the geographical concentration of investment. In most cases, the bank branches located in these



TABLE 20

DISTRIBUTION OF CONSOLIDATED COMMERCIAL BANK DEPOSITS AND LOANS OUTSTANDING, 1969  
(per cent)

Banks	Deposits	Loans outstanding
B.N.A.	70	67
B.E.A.	17	19
C.P.A.	13	14

growth centres simply handle and check the payments of their client firms, subject to precise instructions of their respective head offices. They give no impulse to the local economy by investing on the spot such resources as accrue to them.

In addition to having the largest network, the B.N.A. is also Algeria's leading bank in terms of deposits and of loans outstanding. As Table 20 shows, it accounted, at the end of 1969, for 70 per cent of the whole banking system's deposits and for 67 per cent of loans outstanding.

Technically, the commercial banks follow French practice by accepting deposits under four headings, namely, *comptes de chèques*, *comptes courants*, *bons de caisse*, and *comptes à échéance fixe*. Commercial banks may not accept deposits on savings books, a facility offered only by the C.N.E.P.

The first two categories are both current accounts, the chief difference being that the *comptes de chèques*, which are drawn on only by cheque, are personal accounts for individuals not engaged in trade, industry or farming, whereas the *comptes courants* are business accounts. *Bons de caisse* are fixed-term notes generally issued in maturities of 6, 12, 18 or 24 months, but never more than two years. The *comptes à échéance fixe*, finally, are fixed-term time deposits, which can be withdrawn only

after the lapse of a certain period, not exceeding two years from the date when the money was paid in.

The distribution of the various categories of deposits among the three commercial banks of Algeria is shown in Table 21, which, in third place, lists the additional category of *comptes exigibles après encaissement*; these represent sums standing to the credit of clients but at their disposal only after the bank has cashed the money — as in the case, say, of cheques or bills to be presented for payment.

Business current accounts are much the biggest item, with 58 per cent of total deposits at the end of 1969; at the same date, fixed-term notes and time deposits followed with 23 per cent and cheque accounts with 13 per cent, leaving 6 per cent for accounts subject to prior encashment.

There is a high degree of specialization in the activities of the banking system. This is the result of deliberate policy which governed the reorganization of the banking system during the years 1966 to 1968 and of subsequent regulations contained in the Finance Act 1970<sup>1</sup>. The end effect is that each of the deposit banks has its operational field clearly marked out as regards both the nature and the number of client firms.

This specialization is tailored to the logic of financial planning and constitutes an alternative to an approach, for instance, of the Soviet type, involving only one single state bank. Such a system was advocated by the B.N.A.<sup>2</sup>, but for various reasons not accepted by the government. One of the main reasons was that the Algerian economy still had a private sector of some importance,

<sup>1</sup> It will be recalled that Article 18 of that law required all national companies as well as public institutions in industry and trade to deal with only one bank.

<sup>2</sup> See P. Pascallon, "Le système monétaire et bancaire algérien - Réalités et perspectives", *Banque*, No. 289, October 1970, p. 880.

TABLE 21

COMMERCIAL BANK DEPOSITS, BY BANKS AND CATEGORIES, 1968 TO 1970  
(*end-year figures, in dinars*)

Banks	Cheque accounts	Current accounts	Accounts subject to prior encashment	Fixed-term notes, time deposits, blocked accounts	Total
1968					
B.N.A.	476,647,380	2,332,164,045	218,057,683	557,321,435	3,584,190,543
B.E.A.	117,846,398	764,107,613	15,666,536	173,312,500	1,070,933,047
C.P.A.	172,757,603	208,068,190	26,437,104	244,933,570	652,196,467
Total	767,251,381	3,304,339,848	260,161,323	975,567,505	5,307,320,057
1969					
B.N.A.	450,579,925	2,747,802,949	349,458,246	937,052,942	4,484,894,062
B.E.A.	152,616,402	722,890,287	21,068,585	266,527,700	1,163,102,974
C.P.A.	233,015,687	287,990,690	46,760,628	274,609,837	842,376,842
Total	836,212,014	3,758,683,926	417,287,459	1,478,190,479	6,490,373,878
1970					
B.N.A.	...	...	...	...	...
B.E.A.	210,232,431	970,507,660	27,883,205	668,428,400	1,877,051,696
C.P.A.	141,821,960	419,735,571	49,909,020	70,299,676	681,766,227
Total	...	...	...	...	...

Source: Balance sheets of the banks concerned.

and another that economic and financial planning was as yet neither comprehensive nor fully efficient in technical and operational terms. In any case, the Minister of Finance and Planning has taken occasion to point out that in so far as the different financial institutions specialized only with respect to the distribution of a central pool of resources in their joint charge, the existence of several banks was conceptually quite compatible with overall planning and with the unity of the said pool of resources<sup>1</sup>. Nevertheless the single-bank system is still under discussion, and "fundamental decisions" on this matter are apparently to be taken before the end of the current four-year plan 1970-1973<sup>2</sup>.

<sup>1</sup> Speaking at the inauguration of the C.P.A. in December 1966, the Minister of Finance and Planning, Kaid Ahmed, explained the principle of financial planning in these terms: "En effet, planifier les flux financiers consiste, d'abord, à déterminer pour l'ensemble de la nation, le volume des ressources qui peuvent être créées ou récoltées et à définir, ensuite, les affectations..." With reference to specialization of the banking system, he added: "Ces ressources sont ainsi considérées globalement comme un fonds central de 'financement de l'économie', fonds central dont les institutions financières sont les organes. Le rôle de ces dernières consiste, dès lors, à assurer par des financements, la répartition des ressources selon les objectifs quantitatifs et sectoriels définis par la planification. L'unité conceptuelle du 'fonds central' et son utilisation comme instrument normatif de l'activité économique ne sont compatibles avec la multiplicité des institutions que dans la mesure où celles-ci sont fonctionnalisées, c'est-à-dire sont spécialisées dans des opérations ou des secteurs déterminés. Chaque institution financière exerce donc des fonctions qui lui sont propres et pour lesquelles elle constitue l'organe d'intervention du 'fonds central'". (Ministère de l'Information, *Actualité et Documents*, No. 67, January 1967, p. 14-15).

<sup>2</sup> The present Minister of Finance, S. Mahroug, felt in 1971 that the question was not yet ripe for decision. In a statement on the fundamental lines of financial planning and the position of credit institutes (Ministère des Finances, *Le Crédit en 1971, Orientations et directives*, May 1971, p. 34), he wrote: "La question du schéma organique du système financier peut encore attendre. L'option entre un modèle plus ou moins concurrentiel s'appuyant sur la notion de marché planifié et un modèle de caractère plus administratif cherchant par une intégration presque totale de toutes les institutions à assurer une centralisation de toutes les ressources n'est pas encore arrivé à maturité. Les décisions fondamentales seront prises avant l'entrée en vigueur du prochain plan".



As things are now, bank specialization is conceived in terms both of the size and the activity of client firms, and of the duration of credits.

With respect to the first point, the B.N.A. is in charge of financing the large national companies as well as the agricultural sector, the B.E.A. specializes in foreign transactions and hence serves such firms as deal predominantly with foreign markets, and the C.P.A. concentrates on small and medium-sized firms in the socialist sector and also serves a few national companies mainly in tertiary activities.

As regards the duration of credit, the three commercial banks handle mainly short-term credit up to one year, while the C.A.D., as a development bank, is in charge of medium- and long-term credit other than agricultural and housing credit, which are the responsibility, respectively, of the B.N.A. and the C.N.E.P. Recently, however, the commercial banks have been extending medium-term credits in the first place, leaving the C.A.D. to refinance them and to rediscount the bills concerned with the central bank, once they are rendered bankable by a third signature (see below p. 122). But the C.A.D. refinances medium-term credits only if they meet the procedural requirements for the financing of planned investment and subject to prior agreement by the C.A.D.

Tables 22 and 23 show the distribution of commercial bank credits by duration and by economic sectors as of 31 December 1969, and Tables 24 and 25 show the distribution of commercial bank assets. With respect to the latter two tables, it must be pointed out that the item "Bill portfolio" includes holdings of Treasury Bills and hence says nothing about the real volume of bill discounts. This is known to be small, and the bills concerned are most often connected with import and export business. The

TABLE 22

COMMERCIAL BANK CREDITS, BY BANKS AND DURATION, 1969  
(end-year figures, in million dinars)

Type of credit	B.N.A.	B.E.A.	C.P.A.	Total	Composi- tion per cent
Trade bills (short-term)	149.5	132.8	78.4	360.7	6.12
Mobilizable and non-mobilizable credits:					
short-term	3,648.8	400.5	400.3	4,449.6	75.51
medium- and long-term	935.0	57.3	90.1	1,082.4	18.37
Total	4,733.3	590.6	568.8	5,892.7	100

Source: Secrétariat d'Etat au Plan, *Tableaux de l'économie algérienne*, 1970, Table XVI-3, p. 211.

TABLE 23

COMMERCIAL BANK CREDITS, BY BANKS AND RECIPIENT SECTORS AND BRANCHES, 1969  
(end-year figures, in million dinars)

Sectors and branches	B.N.A.	B.E.A.	C.P.A.	Total	Composi- tion per cent
Agriculture	3,726.2	0.1	2.6	3,729.0	63.28
Industry	421.0	418.2	368.9	1,208.1	20.50
<i>Energy, transport</i>	80.0	181.1	49.8	310.9	25.73
<i>Metallurgy</i>	102.5	179.8	147.8	430.1	35.59
<i>Textiles</i>	24.9	7.8	10.2	42.5	3.51
<i>Food</i>	18.4	2.4	33.2	54.0	4.47
<i>Public works, building materials</i>	80.4	14.7	71.6	166.7	13.79
<i>Mining, coal and minerals</i>	56.4	—	4.2	60.7	5.02
<i>Chemicals and fertilizers</i>	17.4	5.0	33.6	56.0	4.63
<i>Other industries</i>	41.0	27.8	18.5	87.3	7.22
Trade	575.9	127.5	155.9	859.3	14.58
Others	10.1	44.8	41.4	96.3	1.63
Total	4,733.3	590.6	568.8	5,892.7	100

Source: Secrétariat d'Etat au Plan, *Tableaux de l'économie algérienne*, 1970, Table XVI-3, p. 211.

TABLE 24

COMMERCIAL BANK ASSETS, BY BANKS AND CATEGORIES, 1968 TO 1970  
(*end-year figures, in dinars*)

Year	Cash in hand, Treasury and B.C.A.	Bill portfolio <sup>(1)</sup>	Current accounts	Advances and sundry debtors, guaranteed loans	Debtors for acceptances	Securities	Total	Total
1	2	3	4	5	6	7	(7 — 1)	(7 — 1)
1968								
B.N.A.	101,091	1,491,737	1,595,982	999,720	1,012	1,381	4,190,923	4,089,832
B.E.A.	55,430	1,120,100	117,761	11,033	11,053	1,983	1,317,360	1,261,930
C.P.A.	30,919	589,572	110,042	14,576	451	3,060	748,620	717,701
Total	187,440	3,201,409	1,823,785	1,025,329	12,516	6,424	6,256,903	6,069,463
1969								
B.N.A.	198,646	3,197,835	1,038,020	549,699	11,041	2,583	4,997,824	4,799,178
B.E.A.	77,996	942,249	398,879	3,333	7,068	1,198	1,430,723	1,352,727
C.P.A.	25,860	620,348	323,936	23,731	14,617	2,809	1,011,301	985,441
Total	302,502	4,760,432	1,760,835	576,763	32,726	6,590	7,439,848	7,137,346
1970								
B.N.A.	...	...	...	...	...	...	...	...
B.E.A.	136,371	1,003,865	935,133	22,853	4,630	1,197	2,104,049	1,967,678
C.P.A.	84,953	646,250	226,001	19,148	596	2,183	979,131	894,178
Total	...	...	...	...	...	...	...	...

(<sup>1</sup>) Including Treasury Bills.

Source: Balance sheets of the banks concerned.

TABLE 25

COMPOSITION OF CONSOLIDATED COMMERCIAL BANK LOANS,  
BY CATEGORIES, 1968 AND 1969  
(*per cent*)

Type of assets	1968	1969
Bill portfolio <sup>(1)</sup>	52	66
Current accounts	30	24
Advances and sundry debtors, guaranteed loans	17	9
Debtors for acceptances	}	1
Securities		

(<sup>1</sup>) Including Treasury Bills.

bill circulation and hence the volume of discounts by commercial banks have decreased very much as the public sector gained predominance in the economy.

This trend was reinforced by the Finance Acts 1970 and 1971, which prohibited, respectively, any form of consumer credit and all intercompany credits other than normal trade credits.

Hence credit lines, or overdrafts on current account, are the most common technical form of commercial bank credit. Secured advances do not account for much, and are most often given on goods, or documents representing goods, in foreign transactions.

For obvious reasons there is no room in Algerian banking for credits against real or personal security, except for such small business as the banks do with the private sector.

Banking activity in Algeria is not governed by a comprehensive bank act. At the time when Algeria gained its independence, all the banks were French and the government for the time being simply maintained the *status quo*, taking over French credit legislation to the extent that it was not in contradiction with



the new state's laws and regulations. Nowadays, after the reorganization of the banking system, that legislation retains only formal validity, and banking activities are in practice governed by a host of separate decrees, circulars and instructions, not to speak, of course, of the all-important constituent laws of the various banks. Taken together, all these regulations are on the whole concerned with the functions of the banking system in relation to planning and, in great detail, with the methods of channelling bank credit to firms<sup>1</sup>.

There are, however, two main general requirements that banks must meet. These are, first, that they must ask the prior authorization of the central bank before making any loan in certain cases, and secondly, that they must maintain a certain ratio between specified categories of assets and liabilities.

As regards the first requirement, the banks must ask for central bank authorization before they make any loan to a firm whose total debts would, with this loan, come to exceed one million dinars. The lending bank must, therefore, ascertain from the B.C.A.'s central risk pool the client's overall position, in order to make sure whether the proposed loan would bring the client into the range where central bank authorization is required. In the case of national companies this restriction signifies nothing much at the moment, given that their financial programmes are approved at government level, with the agreement of the three commercial banks, the C.A.D. and the B.C.A. itself. In any event, the central risk pool can tell the banks nothing they do not already know about the debit position of national companies, since the latter are not allowed to deal with more than one bank. But in the case of loans to private firms the system of prior authorization

<sup>1</sup> See below, p. 133 ff.

certainly is effective as an instrument of selective credit control, with reference both to the sector of economic activity to be financed and to the separate firms wishing to obtain credit.

If granted, the prior authorization still does not do away with the need for the bank to obtain the central bank's prior rediscount agreement (*accord préalable de réescompte*), in case the bank wants to have a possibility of refinancing the credit concerned with the B.C.A. The other way round things are simpler. If a bank requests a prior rediscount agreement from the central bank, the latter ascertains the destination and amount of the credit concerned and no prior authorization is required. This, therefore, is how the banks proceed in practice. It must be pointed out, however, that even a prior rediscount agreement constitutes no definite commitment by the central bank, which in all cases retains full discretion as to whether or not to refinance the credit concerned when the time comes.

As regards the liquidity requirement, banks must maintain a ratio of at least 60 per cent between the following assets and liabilities:

<i>Assets</i>	<i>Liabilities</i>
1. Cash, deposits at the Treasury and B.C.A.	1. Sight deposits
2. Banks and correspondents	2. Banks and correspondents
3. Bill portfolio	3. Claims subject to prior encashment
(a) Treasury Bills	4. Sundry creditors
(b) Bills eligible for rediscount with the central bank	5. Acceptances
4. Interest and securities receivable	6. Dividends payable
5. Sundry debtors	7. Near-money notes and deposits
	<i>less</i>
	8. Bills for collection.

Furthermore, the banks are obliged to invest at least 10 per cent of their sight deposits in Treasury Bills. This so-called *plancher d'effets publics* was 15 per cent in the pre-independence period, was then suspended and finally renewed at 10 per cent. There is no obligatory cash reserve, on the other hand, since the process of demand deposit creation is governed by other factors.

#### 5. INDIVIDUAL BANKS AND NATIONAL CONSULTATIVE INSTITUTIONS

The following description of the structure and functions of individual banks in Algeria covers the three commercial banks and the development bank, but not the National Savings Bank (C.N.E.P.), which will be discussed later in connection with the formation and mobilization of savings. Instead, this section includes the Algiers pawnshop.

##### (a) *Banque Nationale d'Algérie* (B.N.A.)

The *Banque Nationale d'Algérie* was set up on 13 June 1966 by the government, as the key point in the strategy of financial planning<sup>1</sup>. Its initial capital of 20 million dinars was entirely provided by the state in the form of an endowment fund; under Article 7 of its statute the bank later issued some shares, accounted for at a value of 927,800 dinars in the 1969 balance sheet.

<sup>1</sup> According to Article 5 of its statute, the bank "...exerce toutes les activités d'une banque de dépôt; elle assure notamment le service financier des groupements professionnels, des entreprises et exploitations du secteur socialiste et du secteur public et elle participe, en outre, au contrôle de leur gestion. Instrument de la planification financière, elle est chargée comme banque primaire d'exécuter la politique du gouvernement en matière de crédit à court terme et de collaborer avec les autres institutions publiques de crédit, en ce qui concerne le crédit à moyen et à long terme".

The bank's top executives are appointed by the government. The Chairman-General Manager and the Deputy General Manager are both appointed by decree of the Head of State upon the proposal of the Minister of Finance. They form part of the six-member Board of Directors, whose other four members are appointed upon the proposal of the Minister of Finance, who chooses them from a list of names submitted by the Minister of Agriculture and Land Reform, the Minister of Industry and Power, the Minister of Commerce and the Minister of Public Works and Construction.

Management control by the government goes well beyond the obligatory destination of B.N.A. credits. Article 4 of the constituent law requires the B.N.A. to comply with the directives of the Minister of Finance and Planning in all matters concerning liquidity, safety and spread of risks, and by virtue of Article 8 the B.N.A. has to submit a report on its activities to the same minister, within six months of the closure of accounts each year. On the other hand the law says nothing about the B.N.A.'s relations with the central bank.

Thanks to its takeover of banks specialized in various fields, the B.N.A. can offer its clients a wide range of services, some of which, like those connected with foreign transactions, are of excellent quality.

The B.N.A. calls itself a bank for industry, trade and agriculture. In practice — leaving aside agricultural credit for the moment<sup>1</sup> — it deals mostly with large national companies and self-managing firms. As has been mentioned before (p. 84), the decree of 25 July 1967, by which Article 9 of the B.N.A.'s constituent law was made operative, gave the bank a monopoly

<sup>1</sup> For the B.N.A.'s activities in agricultural credit see below, section 10.



of banking services for firms in the socialist sector (except for those falling within the specialized field assigned to the C.P.A.), for non-financial public enterprises and for national companies.

With respect to self-managing firms, the government assigned to the B.N.A. two special functions, namely, control of profit appropriation in accordance with the law, and, jointly with the "workers' collective" and with the government departments concerned, management control<sup>1</sup>. Accordingly the B.N.A. checks the firms' financial flows against expenditure programmes, and to this end may keep separate accounts for particular types of expenditure or specified production programmes, may ask the firms for every kind of information and figures which shed useful light on their activities, and may, finally, make payment subject to the submission of documents justifying the expenditure concerned in the light of official plans and management rules. In addition, the B.N.A. has powers to check the self-managing firms' financial, economic and capital situation. In turn, government departments have the right to obtain from the B.N.A. full information regarding movements and balances on these firms' deposit accounts<sup>2</sup>.

<sup>1</sup> Article 12 of the constituent law: "La banque exerce, en collaboration étroite avec les collectifs des travailleurs et en liaison avec les autorités de tutelle, le contrôle opératif et financier des entreprises et exploitations du secteur socialiste, afin de les aider à réaliser leurs plans et programmes et à augmenter quantitativement et qualitativement leur productivité et afin de s'assurer qu'elles respectent les règles de gestion équilibrée et de discipline économique et financière et qu'elles contribuent pleinement au développement économique national".

<sup>2</sup> Article 10 of the B.N.A.'s constituent law: "Les autorités de tutelle peuvent prendre connaissance à tout moment auprès de la Banque nationale de la situation du compte et des engagements des offices et établissements publics, sociétés nationales, groupements professionnels et entreprises et exploitations autogérées... La Banque nationale peut, d'initiative, porter à la connaissance des autorités de tutelle et du Ministre des Finances et du Plan, tout fait concernant la gestion desdites entreprises".

The B.N.A. is Algeria's biggest bank and has the largest branch network. Branches are classified either as agricultural (the former regional and local agricultural credit offices) or as industrial and commercial. At the end of 1969, the B.N.A. had 69 of the former and 73 of the latter, making a total network of 142 branches, compared with only 55 on 1 July 1966.

(b) *Crédit Populaire d'Algérie* (C.P.A.)

The *Crédit Populaire d'Algérie* was set up on 29 December 1966 by the merger of the five existing people's banks. The new bank took over all their deposits and, with the help of a state guarantee, also the responsibility for their reimbursement in full. Not all the assets were transferred, on the other hand, and those that were not were handed over to the *Conseil algérien du crédit populaire* for liquidation. Contrary to what its name suggests, the C.P.A. has none of the features characteristic of people's banks, but, like the B.N.A. and the B.E.A., is a deposit bank.

For its initial capital, the C.P.A. received from the state 15 million dinars out of the funds previously assigned to the *Caisse Centrale du Crédit Populaire* for specified categories of credit. The C.P.A.'s Chairman-General Manager and its Deputy General Manager are appointed by decree of the Head of State upon the proposal of the Minister of Finance. They form part of the six-member Board of Directors, whose other four members are appointed by the government and chosen from a list of names submitted by the Ministers responsible for Transport, Commerce, Tourism, and Industry and Power. The Minister of Finance appoints an auditor, who has the right to take part in Board meetings in an advisory capacity.

The Board of Directors takes management decisions in accordance with directives from the Finance Minister, who is thus ultimately responsible for management and control<sup>1</sup>.

The C.P.A. extends credit to craftsmen, to hotels and the tourist industry generally, and to fisheries. It also finances non-agricultural co-operatives of the production, distribution, marketing and services type, as well as the small and medium-sized enterprises of the socialist sector. In relation to the latter, the C.P.A. has the same powers of control as the B.N.A. Finally, the C.P.A. has among its clients a few national companies in the tertiary sector, all of them smaller than those that deal with the B.N.A. and the B.E.A.

The specialized field assigned to the C.P.A. clearly does not need a very large bank, and in fact the C.P.A. is the smallest in terms of average deposits and loans and of the volume of business.

The C.P.A. has a monopoly position in two fields. First, the law of 14 September 1967 gave it the monopoly of financing instalment sales, with particular reference to motor cars and to capital goods for private enterprise. Since then, the Finance Act for 1970 has prohibited consumer credit; for capital goods, the C.P.A.'s credits typically take either of two forms: a medium-term loan that can be mobilized with the C.A.D., or else acceptance of a credit granted to the supplier. Secondly, the C.P.A. has the

<sup>1</sup> As in the case of the B.N.A., the statute lays down that "le Crédit Populaire d'Algérie est, dans le respect des normes techniques de liquidité, sécurité et répartition du risque, administré selon les directives de politique générale communiquées par le Ministre des Finances et du Plan au président-directeur général; ce dernier peut faire toutes propositions et observations à ce sujet" (Article 19). Article 29 adds that the C.P.A. "...est soumis au contrôle des services de l'inspection du Ministère des finances et du plan qui disposent, à cet effet, de tous droits d'investigation".

monopoly of medium- and long-term loans to ex-servicemen (*anciens moudjahidine*) and to former officials and combatants of the National Liberation Army; these loans are financed by budgetary funds and may be used for the purchase or establishment of small trading or artisan enterprises<sup>1</sup>.

The C.P.A. has the second-largest branch network in Algeria, after the B.N.A. At the end of 1970, it had 40 branches, of which some were specializing in credits for capital goods.

(c) *Banque Extérieure d'Algérie* (B.E.A.)

The *Banque Extérieure d'Algérie* is, chronologically, the third of the three deposit banks to have been set up, and the second in size. Its foundation on 1 October 1967, with an endowment fund of 20 million dinars, was the last step in the reorganization of the banking system.

As in the case of the other two deposit banks, the Chairman-General Manager and the Deputy General Manager are appointed by decree of the Head of State upon the proposal of the Minister of Finance. Unlike the other two, however, the B.E.A.'s Board of Directors has not six, but only five members, namely, the two chief executives named plus three appointed by the government upon the proposal of the Minister of Finance and chosen, in this case, from a list of names submitted by the Minister of Foreign Affairs, the Minister of Industry and Power, and the Minister of Commerce.

By virtue of Article 8 of the statute, the Board of Directors is responsible for management in accordance with the bank's

<sup>1</sup> The C.P.A. is responsible for the investigation of the loan request, but the ultimate decision rests with a committee consisting of the Finance Minister, the Minister responsible for ex-servicemen and a leader of the National Liberation Front.



statutory purposes and the Finance Minister's general directives concerning the implementation of national financial programmes and objectives.

The B.E.A. deals mainly with national companies in industry<sup>1</sup> and is primarily concerned with the promotion and development of economic relations with the rest of the world in accordance with planning targets. To this end, it provides not only credits and acceptances, but the whole range of services needed to back trade and financial transactions with abroad. It has broad statutory powers in this respect, including the right to take part in any credit insurance scheme for foreign transactions, to set up subsidiaries abroad<sup>2</sup> and to acquire shares in foreign enterprises susceptible of developing Algerian exports.

The B.E.A.'s specialization is reflected in its internal organization. It has, apart from a department of administrative affairs, two operational departments, namely, the foreign department and the credit department.

The first handles all foreign transactions, including those under foreign credit agreements negotiated by national companies for the purchase of capital goods in connection with investment projects scheduled in the national plan. It also runs a commercial information service covering market developments and individual firms in various sectors, with particular reference to steel and hydrocarbons. Like the other two deposit banks, it will be recalled, the B.E.A. had the advantage of not having to start out on new ground, but of acquiring the organization and connections of existing banks; in the B.E.A.'s case, these were French banks

<sup>1</sup> In 1970 some 70 per cent of the B.E.A.'s credits went to national companies in industry, especially those in steel and hydrocarbons.

<sup>2</sup> The B.E.A. has not, in fact, taken advantage of this right. Algerian banks are represented abroad only by the B.N.A. agency in Paris.

with great experience in foreign transactions, and thus of considerable help to the new bank in entering foreign markets and generally discharging its functions.

The credit department, on the other hand, handles the normal business of short- and medium-term credits in national currency.

Of the B.E.A.'s domestic network of 17 branches at the end of 1970, 7 were in the region of Algiers, and 5 each in the two regions of Oran and of Constantine. The bank also has a sizeable network of correspondents abroad.

Like the activities of B.N.A. and the C.P.A., those of the B.E.A. are subject to the Finance Ministry's directives and control.

(d) *Caisse de Crédit Municipal d'Alger* (C.C.M.A.)

This is a financial institution which has much in common with the traditional pawnshops, and indeed was started as such more than an hundred years ago, in 1852. This original *Mont de Piété d'Alger* was later followed by similar ones at Oran (1882) and at Constantine (1892)<sup>1</sup>.

The C.C.M.A. has the status of a public municipal institution of "social aid". As such it forms part of the administration, but has its own legal personality and financial autonomy.

Its manager is appointed by the Minister of Finance and its Board of Directors by the departmental prefect (*Wali*). The *ex officio* chairman of the board is the chairman of the *Assemblée populaire communale*, and one third of the directors must be members of that Assembly. As a municipal institution, the

<sup>1</sup> On the history of what is now called municipal credit in Algeria, see P. Pascallon, "L'Expérience monétaire algérienne", *op. cit.*, p. 785 ff. On the C.C.M.A. itself, see "La Caisse de Crédit Municipal d'Alger", *Algérie & Développement*, No. 6, 1971, p. 66 ff.

*Caisse* answers in the first instance to the Wali, and in the second to the Minister of Finance.

The C.C.M.A. lends money on the security of goods taken into pawn or, in the case of so-called social loans, of the borrower's wages or other fixed income. Interest rates range from a minimum of 4 to a maximum of 6.5 per cent, and are determined with reference not to the risk involved, but to social reasons.

Loans for less than one year account for some 75 per cent of the total, those for between one and two years for 15 per cent, and those for more than two years for 8.5 per cent. The insolvency rate is 1.50 per cent of loans granted.

The C.C.M.A. draws its funds from deposits, mainly against fixed-term notes in large part subscribed by local authorities. It has three offices in Algiers and one each at Tizi-Ouzou, Bône and El-Asnam.

The institute's important social functions, especially in combating usury, led the authorities to exempt its loans from the general prohibition of consumer credit.

(e) *Caisse Algérienne de Développement* (C.A.D.)

The *Caisse Algérienne de Développement*, a public corporation endowed with its own legal personality and financial autonomy, was set up on 7 May 1963 for the purpose of carrying on the activities of the *Caisse d'Équipement pour le Développement de l'Algérie* (C.E.D.A., in its turn founded on 17 March 1959) as well as of a number of French public credit institutes, to wit, the *Crédit National*, the *Caisse Nationale des Marchés de l'État* and the *Caisse de Dépôts et Consignations*.

The C.A.D. was meant as a development bank, but has never had a chance to act as such. In practice it is an agent of public administration for the implementation of the government's

investment programmes, and has given little genuine impulse to development in any field of enterprise.

Since the bank's reorganization under Ordinance No. 71-47 of 30 June 1971, the management of the C.A.D., "within the framework of development plans and programmes, and in conformity with the guidelines, directives and instructions of the Minister of Finance", is in the hands of a Chairman-General Manager, a Deputy General Manager (both appointed by decree of the Head of State upon the proposal of the Minister of Finance) and a Board of Directors, which, in addition, includes one representative each of the Planning Department and of the ministry directly concerned with matters on the agenda, the chief of the Treasury and Credit section of the Finance Ministry or a representative of his, and one representative each of the central bank, the B.N.A., the C.P.A. and the B.E.A. In addition, the Minister of Finance may send a representative of his own to the board meetings. These are convened by the Chairman of the bank whenever the conduct of its affairs requires, but must take place at least once every two months.

The board's powers — all, of course, subject to the Finance Minister's directives — include decisions regarding the annual programme of the bank's supply and use of resources, decisions regarding general organization, approval of internal rules and regulations, and supervision of all operations including lending.

The Chairman, in his turn, is responsible for actual management and for implementation of general policy as well as of the Board's decisions. An auditor is appointed by the Minister of Finance, and the Finance Ministry's appropriate services have full powers of inspection for purposes of control and supervision.

Under its statute, the C.A.D. has a very broad scope as regards both investment policy and resources.



As regards the first, the bank may: (1) grant credit in any form whatever subject to a maximum duration of thirty years; (2) guarantee or commit itself to guarantee loans from national, foreign or international banks or financial institutions, take part in such loans or mobilize them; (3) fund company debts to banks; (4) advance money for the execution of state, local authority or public agency contracts; (5) carry out, with or without its own guarantee, credit operations on behalf of foreign or international financial institutions or administrations; (6) promote the creation of mutual guarantee societies in order to make it easier for small and medium-sized firms as well as artisan co-operatives to obtain investment credit; (7) acquire or manage on account of the state shareholdings in various enterprises; (8) acquire or manage stocks and shares on its own account or third-party account; (9) help in whatever way to place bonds issued for the purpose of financing investment; (10) back the purchase or import of capital goods or the establishment of production units; (11) promote the creation, purchase or merger of all types of enterprises or run joint services for several enterprises; (12) hold and administer such foreign currency assets as may be needed in the performance of its own functions, and guarantee foreign investments.

The C.A.D.'s statute, finally, provides that the bank may be asked by the government to take on the financial management of the public investment programme, with separate accounts being kept in accordance with the rules governing public accountancy. This, as will be seen presently, in practice constitutes the bulk of the C.A.D.'s activities.

On the side of resources, the C.A.D. has, to begin with, its endowment fund of 100 million dinars — which, incidentally, was paid over only in 1966. In addition, the bank may, under its statute: (1) issue medium- and long-term bonds as well as fixed-

term notes; (2) place with the deposit banks so-called investment certificates of up to five-year maturity, which may, subject to authorization by the Finance Minister, be included in the computation of the banks' obligatory minimum ratio of public security holdings; (3) incur any form of debt at home or abroad; (4) receive Treasury funds from the Finance Minister; (5) mobilize its own credits with the banking system or the central bank.

In spite of this wide range of permissible sources of supply, the very nature of its loans led the C.A.D. to rely most heavily on budgetary funds. It never borrowed from the public at all, and in fact had no chance of taking advantage of the only possibility it had of doing so, because, when investment bonds (*bons d'équipement*) were first issued in 1971, this was done by the state itself.

Of the C.A.D.'s five departments, one, the *Département des services généraux*, is concerned with internal organization (supplies, personnel, etc.), and the other four correspond to the four main categories of services the bank in practice renders to the national economy<sup>1</sup>; they are named *Département des études*, *Département du financement des entreprises*, *Département de l'équipement public*, *Département des opérations financières*.

(i) The *Département des études*, or Research Department, has two main functions. First, it acts as secretariat to the National Investment Commission (*Commission nationale des investissements*, C.N.I.). This is a consultative body which, in connection with the 1966 Investment Code<sup>2</sup> is concerned with guarantees and facilities for foreign investments. The secretariat answers to the Minister of Planning as chairman of the Commission; it receives

<sup>1</sup> On the activities of the C.A.D. see also P. Pascallon and J.F. De Laulanie, *op. cit.*, p. 73 ff.

<sup>2</sup> See above, p. 25.

and scrutinizes requests before passing them on to the Commission together with a brief report on their economic, technical and fiscal aspects, convenes the Commission and provides secretarial services for its meetings, and drafts the provisional text of the relevant agreements<sup>1</sup>.

Secondly, the Research Department administers foreign financial aid. It centralizes and is in charge of all operations connected with economic agreements and loans from foreign governments, takes part in negotiating contracts for the purchase of capital goods financed by foreign loans, and acts as an information centre to keep the ministers concerned up to date on the volume and use of foreign credits.

(ii) The *Département du financement des entreprises*, or Company Loan Department, similarly has two sets of functions. It examines credit applications by firms in preparation for the decisions of the C.A.D. Board of Directors, and it is responsible for the management of that part of the public investment programme which concerns directly productive investment.

Until 1966/1967, this latter function was discharged by the bank's Public Investment Department, which took care also of public investment in infrastructures. In practice this meant distributing budgetary funds in the form either of (mostly long-term) loans or of grants or subsidies, followed up by control of the use of the funds concerned and of project implementation.

New regulations then shifted responsibility for infrastructural investment to the Finance Ministry and thus made the provision of funds subject to normal budgetary procedures for public expenditure; the C.A.D. was left with responsibility only for directly productive investment. At this point, the bank's Company

<sup>1</sup> Decree No. 67-42 of 9 March 1967, "Portant organisation et fonctionnement de la Commission nationale d'investissement".

Loan Department took over from the Public Investment Department, and organized four specialized sections dealing, respectively, with industry, mining and steel, tourism and crafts.

Once the C.A.D. received its endowment fund from the state in 1966, it was in a position to do some lending of its own in addition to the mere management of the government programme. It is true that its own resources were scarce and that it was unable to raise any funds from the public, but within these limits it did extend long-term loans up to thirty years.

Medium-term credit, on the other hand, while permissible under the statute and included in the bank's internal regulations, is a field in which the C.A.D. cannot operate directly, because it does not have enough funds of its own and cannot rediscount the bills concerned at the central bank<sup>1</sup>. Instead, the C.A.D. refinances commercial banks for medium-term credits, provided these fall within its statutory purposes and their terms and conditions meet its internal regulations. What happens in practice, then, is that medium-term credits are granted by one of the commercial banks, which, on the basis of a rediscount agreement<sup>2</sup>, may, in case of need, transfer the bills backing those credits to the C.A.D. The C.A.D. in turn can now rediscount these bills with the central bank, since they carry three signatures.

Finally, the C.A.D. provides acceptances for credits which finance state contracts<sup>3</sup>, as the defunct *Caisse Nationale des*

<sup>1</sup> To be eligible for central bank rediscount, a bill must have three signatures. If it were made out directly to the C.A.D., it would have only two.

<sup>2</sup> Which actually involves a highly complicated procedure. See C.A.D., *Fiches d'information*, No. 2-3, 1971.

<sup>3</sup> As well as other public contracts placed by local authorities, public agencies, state- or partly state-owned companies (provided the state holding is more than 50 per cent of the capital) or companies holding a public utility concession.



*Marchés de l'Etat* used to do. The C.A.D. does not actually advance to the contractor the payment due by the state, but endorses the bills of exchange he makes out to a bank in order to mobilize the claim or obtain prefinancing funds prior to the due date of the public administration's payment. Such bills may not have a maturity of more than three months or less than ten days, but can be renewed up to the limit of the C.A.D. credit.

(iii) The *Département de l'équipement public*, or Public Investment Department, still retains responsibility for the extra-budgetary part of the public investment programme for infrastructures, even though the bulk of it ceased to be administered by the C.A.D. after 1966 (by virtue of new regulations and especially the Supplementary Finance Act of 2 June 1967). The Department also handles French aid credits earmarked for specified industrial investments through the *Organisme de coopération industrielle* (O.C.I.). It is, finally, in charge of control and co-ordination with respect to loans by the European Development Fund for certain social projects.

(iv) The *Département des opérations financières*, or Financial Operations Department, has largely administrative functions, prepares the bank's lending programme and supervises its implementation, and prepares the balance sheet.

(f) *National consultative institutions*

Before independence, it will be recalled, consultative functions with respect to monetary and credit matters, and functions of control and co-ordination of banking activities, were vested in the *Conseil algérien du crédit* and in the *Commission de contrôle des banques*. By decree of 28 December 1962, these functions were provisionally transferred to the Central Bank. The first new

national consultative institution was set up on 17 November 1967 under the name of *Comité technique des institutions bancaires nationales* (C.T.I.B.N.).

At that time, the banking system still had foreign banks alongside the new national ones, and the resulting conflict of interests explains the functions of the new Technical Committee, which was chaired by the governor of the Central Bank and included the chairmen or general managers of the five new national banks, with the general manager of the B.C.A. acting as secretary. The Committee was to advise the Minister of Finance and Planning on credit and banking matters, with special reference to (1) compliance by the national banks with the government's directives on credit policy; (2) the application of financial planning in the field of banking; (3) the unification of the management methods and procedures of the national banks; (4) the unification of the conditions of bank operations; (5) the creation of joint services for national credit institutes.

But the Committee met no more than ten times or so, and never fully discharged its functions.

In time, financial planning became more firmly established and banking activities were reshaped to its requirements. Furthermore, it appeared necessary to make the banking system responsible for the optimal distribution of financial resources in accordance with the plan, and also for the control of the use of these resources by companies. For these reasons, the government was led to reorganize the C.T.I.B.N. with a view to more efficient co-ordination of banking activities.

Accordingly, a recent ordinance, dated 30 June 1971, provides for the creation of a *Conseil du crédit* and of a *Comité technique des institutions bancaires*.

The *Conseil du crédit* is placed under the authority of the Minister of Finance, and has the function of making proposals, recommendations and observations on monetary and credit matters. It is charged with (1) examining problems concerning the nature, the cost and the volume of credit in the context of national economic development plans and programmes; (2) finding ways and means to increase the country's financial resources and to mobilize and pool them; (3) proposing such measures as may increase the use of bank money, both as an important means of control with respect to company management and credit use and in order to reduce idle monetary funds and, more generally, the practice of hoarding; (4) helping to reinforce and improve the banking system's relations with the business community.

The *Comité technique des institutions bancaires*, too, is a consultative body under the authority of the Minister of Finance, but its field is the narrower one of the banking profession as such.

One of its tasks is to facilitate the co-ordination of the financial institutions' activities and to bring them into line with the planned financial requirements of firms. To this end it studies and makes recommendations on such problems as (1) backing and speeding up the implementation of investment and production programmes; (2) keeping firms under effective operational and financial control; (3) directing the flow of available resources in such a way as to keep both the credit system as a whole and each institution in a balanced position.

Another of the Committee's tasks is to rationalize and unify management methods. To this end it proposes measures designed (1) to improve the efficiency of banking services; (2) to unify bookkeeping, administrative and statistical methods and procedures as well as the techniques of evaluating financial requirements and their coverage; (3) to organize the speedy transmission to the

Finance Minister of data and information on the financial situation of credit institutes.

Thirdly, the Committee has the task of examining the statements, accounts and balance sheets of credit institutes, and to submit them to the Finance Minister for approval, together with the Committee's own observations and recommendations. Finally, the Finance Minister may ask the Committee to look into the financial and economic position of firms which have been unable to obtain adequate credit, and to propose measures for their rehabilitation.

The decree of 30 June 1971, which set up these two new bodies, also relieved the Central Bank of the functions previously exercised in Algeria by the French *Conseil national du crédit* through the *Conseil algérien du crédit* and by the *Commission de contrôle des banques*. With these functions now incumbent on the two new bodies, greater emphasis was placed on the Central Bank's rôle of answering to the Minister of Finance for the control of credit and banking activities. It was made clear beyond doubt that it is the Finance Minister who is the country's real monetary and credit authority, while the B.C.A. has to make sure that the banks comply with the law and regulations concerning money and credit, and carry out all the relevant directives and decisions of the Finance Minister. Notwithstanding any provisions to the contrary<sup>1</sup>, therefore, the B.C.A. was given full powers of control and inspection vis-à-vis the banking system, and is charged with proposing to the Finance Minister such measures and provisions as are judged suitable for rendering the B.C.A.'s supervisory functions more effective.

<sup>1</sup> The reference clearly is to the constituent laws of the national banks, which vested in the Finance Minister all powers of control and investigation.



## 6. FINANCIAL PLANNING: PRINCIPLES AND METHODS

Economic planning, which is the government's chosen strategy for economic development and currently finds expression in the four-year plan 1970-1973, has its counterpart in financial planning, the basic principle of which may be described as pooling all the country's financial resources and channelling them to planned investment.

Until 1968/1969 this function was performed by the Treasury, which thus found itself in the position of being the chief source of coverage for the economy's financial requirements. The national companies submitted their investment programmes to the minister responsible for their field of activity, and once these were approved, obtained the necessary funds most often from the Treasury (by way of subsidies, grants and credits) and by borrowing abroad. In the latter case, of course, they were in no position to assess the effects of their decisions on the balance of payments.

This was clearly an unsatisfactory system. The government had opted for planning, yet at the level of implementation there was not enough operational and organizational knowledge and experience for the efficient control of the distribution and use of corporate funds, and moreover private capital still had considerable scope. In these circumstances the main burden of financing the national companies inevitably fell upon the Treasury, but as time went on and their numbers multiplied, the adverse effects of this system on the country's economic and monetary situation became only too obvious<sup>1</sup>.

<sup>1</sup> In the words of the Finance Minister (Ministère des Finances, *Le Crédit en 1971, Orientations et directives*, May 1971, p. 6 ff.: "... les banques cédaient leurs disponibilités au Trésor qui les mettait à la disposition des entreprises, lesquelles, au surplus, avaient recours à l'extérieur sans pouvoir juger objectivement

With the entry into force of the four-year plan 1970-1973, new arrangements had to be made, therefore. The respective rôles of the Treasury and of the credit system in financing planned investment had to be defined more strictly. The Finance Acts 1970 and 1971, together with other provisions and instructions, in effect reshaped the whole system of financing and created the conditions for more functional financial planning.

The new system rests on two fundamental principles. One of them has to do with the position of banks, and the other with the nature of the investment to be financed.

(1) As regards the position of the banks, these are regarded as strategic decision centres in relation to the preparation, implementation and control of corporate finance plans. In this context the credit system also has well-defined tasks closely in line with its institutional function. In large part, it is now the credit system and no longer the Treasury which takes care of financial intermediation.

That the Algerian government should have chosen this solution rather than the alternative of a single state bank<sup>1</sup> had two main reasons. First, in a system where planning does not cover prices

les effets de leur décision sur l'équilibre général de la balance des paiements. Dans un tel système, l'Institut d'Emission se voyait mis, en quelque sorte, hors circuit puisque les banques n'avaient pas besoin de faire appel à ses concours et que le niveau et les effets de l'endettement du pays lui étaient inconnus. De même, l'activité bancaire s'orientait vers des placements autres que ceux décidés par le Gouvernement et favorisaient ainsi la création de déséquilibre. Il n'est pas difficile de comprendre également qu'il était impossible de suivre et de connaître la réalisation des investissements, ni non plus de prévoir les difficultés financières des entreprises dans leur exploitation courante. Certes, cette situation a été en partie la conséquence des conditions dans lesquelles le système bancaire a été pris en charge par l'Etat ainsi que le reflet des lacunes dans la conception d'ensemble du système bancaire et financier". See also above, p. 82.

<sup>1</sup> See above, p. 100.

and wages, and production programmes are not very detailed, management control by the banks via credit is, perhaps not the only means, but certainly an effective means of keeping the activities of firms in line with the planners' general purposes and of assessing the profitability of enterprises by their capacity to repay loans granted to them<sup>1</sup>. Secondly, the public authorities were anxious to avoid any system of unduly centralized decision-making powers and procedures. However, while a decentralized system does not suffer the drawbacks of bureaucracy, it does involve a danger of dispersion and hence of less than full utilization of financial and real resources. The decentralization of investment decisions therefore had to be associated with a system of controls right at the source, that is, with reference to the activities of the public enterprises which are the kingpin of economic development.

To exercise these controls is the responsibility of the banks, which, constantly in touch as they are both with the planning authorities and with business men, are in a better position than anyone else to make sure that the government's general and sectoral objectives are in fact adhered to.

(2) The second fundamental principle of the new financing system has to do with the distinction between different types of resources in relation to proposed expenditure, and hence between types of expenditure to be financed, respectively, by the Treasury and by firms with the help of the credit system.

The Minister of Finance has explained that the state budget is to be understood as the whole of the expenditures authorized for the fiscal years, pointing out that it includes, in addition to

<sup>1</sup> See Ministère des Finances, *op. cit.*, p. 3.

current expenditure, investment expenditure for not directly or immediately productive investment (economic and social infrastructures), as well as operating subsidies and investment grants. Operating subsidies, incidentally, may be given only to administrative or other state agencies for that part of their activities which is concerned with public utilities in the traditional sense.

All these expenditures have to be covered by actual government revenue. Productive investment, on the other hand, is to be financed by credit, subject to suitable arrangements and procedures which enable the government to make sure that resources are distributed in accordance with planned objectives.

To quote the Minister of Finance again: "At the level of the financial system planning basically means pooling resources and distributing available means to planned uses. This implies that the resources created by the production process cannot remain at the full disposal of the business which is their source. Disposable resources must at every moment be known and at hand for channelling to their optimal use"<sup>1</sup>.

The measures by which this system of financial planning has been put into effect may briefly be described as follows. Banks may finance only planned investment. Company finances are mapped out in advance and direct lending by one company to another is forbidden, except for normal trade credits. Public enterprises may deal with only one bank. The depreciation and reserve funds of companies are mobilized. Incentives have been devised to encourage the formation of monetary savings and to channel them to the credit system. All this is being done with

<sup>1</sup> Ministère des Finances, *op. cit.*, p. 3.



three ends in view: (a) the mobilization and pooling of financial resources of domestic and foreign origin; (b) the planned distribution of credit; (c) the control of credit use and company management.

*(a) The mobilization and pooling of financial resources*

In their effort to make the economy's resources available for planned uses, the authorities took steps to mobilize both household and corporate savings. In order to encourage households to save, the Finance Act 1971 raised the interest rate on savings deposits with the *Caisse Nationale d'Epargne et de Prévoyance* to 3.5 per cent. At about the same time, the *Caisse* started a new scheme of saving for home ownership (*épargne-habitation*)<sup>1</sup>. After the Finance Act 1970 had stopped certain categories of loans<sup>2</sup> previously extended by the *Caisse*, some of the latter's deposits are now handed over to the Treasury, where they are redistributed in the form of long-term credits for planned investment projects. In 1971, finally, the Treasury itself took steps to mobilize household savings by the issue of five- and ten-year investment bonds (*bons d'équipement*).

As regards corporate savings, national companies and public corporations in industry and trade are required to deposit their reserve and depreciation funds in a special Treasury account. This obligation was introduced by the Finance Act 1970, and Article 26 specifies that this account may be drawn on only subject to joint authorization by the Ministry of Finance and whatever other ministry is responsible for the firm concerned.

<sup>1</sup> See below, p. 191-192.

<sup>2</sup> Mortgage loans, credits for building and so-called social loans. See below, p. 196.

In the following year, Article 6 of the Finance Act 1971 authorized the Treasury to mobilize the reserves of insurance companies and pension and social security funds, as well as the depreciation and reserve funds of public enterprises, in exchange for *bons d'équipement*.

The mobilization of financial resources of foreign origin has two aspects. The problem of how to tap the savings of Algerians resident abroad, mostly in France, was solved by a special foreign-exchange savings scheme introduced by the C.N.E.P. Foreign loans to companies are negotiated either directly by the government, or else, upon special authorization, by the borrowing company with the help of its bank. The government itself determines what proportion of total investment may safely be covered by foreign funds "without danger to the country's financial independence", as the Finance Minister has explained<sup>1</sup>. He added that the collaboration of the banks and the Finance Ministry's services was essential in order to control finance flows to and from abroad and to organize such intervention as may serve to achieve the stated target. "This is a politically delicate matter, in connection with which no shortcoming is permissible".

But foreign indebtedness has not, in fact, been kept down as much as the four-year plan and the Finance Minister meant it to be. To quote the Finance Minister once more: "The balance of payments has been in deficit since 1969, and capital movements have failed to cover the current deficit and the increased demand for capital goods. For these reasons it must be pointed out that roughly one quarter of productive investment under the 1971 programme will have to be financed by foreign loans"<sup>2</sup>.

<sup>1</sup> Ministère des Finances, *op. cit.*, p. 22.

<sup>2</sup> *Ibid.* p. 22.

*(b) The planned distribution of credit*

The domestic and foreign financial resources thus mobilized and/or pooled by the Treasury are then distributed to firms through the banking system, and especially the development bank C.A.D. Firms are given what they need to carry on with planned investment, and "if there is any surplus it must not be used for the benefit of this or that institution, but must remain frozen with the Treasury, that is, withdrawn from the monetary circulation"<sup>1</sup>.

For public enterprises and self-managing firms, the following investment coverage plan has been drawn up for 1971 (in million dinars):

Long-term loans by the C.A.D. from its own resources or funds borrowed from the Treasury 1,757.6, of which for industry 934.5;

Medium-term credits from commercial banks, mobilizable with the C.A.D. 1,412.4, of which for industry 939.2;

Foreign loans 1,083.3, of which for industry 976.3;

Total 4,253.3, of which for industry 2,850.0.

Loan funds are distributed to individual firms on the basis of a schedule drawn up by the Finance Minister and the Planning Department. Under the provisions of the Finance Act 1971 no project may be taken in hand without prior scheduling by the Planning Department following the request of the Minister responsible for the firm concerned, and without the prior preparation of a finance plan, including credit agreements with banks. Once a project has been included in the investment schedule, the bank in charge collaborates with the firm concerned in preparing a finance plan for submission to one of the three

<sup>1</sup> *Ibid.*, p. 21.

"Technical Committees" <sup>1</sup>. If the Committee approves, its decision is communicated to the ministries concerned and to the bank which has undertaken to finance the project. Only then may the firm commit itself to any actual spending.

The creation of these Technical Committees and the obligatory preparation of a finance plan for every single investment project have given the banking system far-reaching responsibilities in connection with the supply of monetary resources to public enterprises and with the control of the use the latter make of these resources. As a further help to the prior and current control of all payments, every company's bank keeps for it two separate sets of accounts, investment accounts and operational accounts.

It certainly is a fact that under this system of financing there is a distinction between the funds a company needs for the purchase of capital goods and for investment projects with a long gestation period, and those it needs for current production and the distribution of goods and services. It is this distinction which has led to the system of separate investment and operational accounts.

Investment accounts record all the movements of funds connected with projects covered by credit agreements, as described above. No other entry is permissible, "because it is necessary

<sup>1</sup> The Technical Committees are attached to banks — one each to the C.A.D., the B.N.A. and the C.N.E.P. — and include representatives of the ministries directly concerned with particular investment projects. The C.A.D. committee, which coincides with that bank's Executive Committee, is responsible for the finance plans of companies in industry, transport, trade, tourism and public works. The B.N.A. committee, which is called *Comité de crédit*, deals with the finance plans for agricultural investment projects; its regional committees, at departmental level, deal with the self-managing estates, and it also has commissions at district level to deal with the farms of the traditional sector. The C.N.E.P. committee is called Technical Committee for Housing, and deals with the ways and means of financing planned housing projects.



to keep a check on actual investment being on target, and hence to eliminate unplanned investment and to control costs, which only too often in the past have exceeded authorized expenditure" <sup>1</sup>.

Operational accounts, on the other hand, are part of the system by which, under Article 30 of the Finance Act 1970 (made operative by decree No. 70-75 of 5 June 1970), finance plans for production are established. Every company has to prepare, before 30 September of each year, a set of advance estimates covering its production programme, its balance sheet and profits and loss account, and its finance plan with itemized resources and uses. Although the law requires these estimates to be approved by the Finance Minister, the latter has in practice delegated this task to the banks. Each company's financial requirements are examined by its own bank, which then agrees credit arrangements for the whole year <sup>2</sup>.

The credits themselves are made available on a quarterly basis (*découpage trimestriel*), because firms are required to furnish every three months a corrected estimate based on monthly figures. Barring authorization by the Finance Minister, banks may not grant credit to firms which do not comply with these requirements, and if there is any discrepancy between the advance estimate of credit needs and actual credit utilization, the banks have to ask the company concerned for an explanation.

<sup>1</sup> Ministère des Finances, *op. cit.*, p. 14.

<sup>2</sup> "Chaque banque doit donc considérer que l'approbation des plans de financement au niveau des investissements ou au niveau de l'exploitation constitue une responsabilité de première importance. Elles doivent soulever tous les problèmes qui se posent au fonctionnement équilibré des entreprises ou des secteurs et les faire remonter, si nécessaire, au niveau du Gouvernement... On ne peut se contenter d'une application formelle et l'Institut d'Emission se doit d'agir avec une certaine rigueur pour donner des accords préalables et d'escompte". (Ministère des Finances, *op. cit.*, p. 17).

(c) *The control of credit use and company management*

The system and methods described above testify to the government's determination to make sure that credit distribution keeps in line with the plan. To this end, the banks have powers of control with respect to the use of funds by companies. As the Finance Minister puts it: "If the supply of financial resources for planned uses is an obligation on the banks, this obligation has its counterpart in the right to control the use of these resources from the point of view of its efficiency in relation to the whole of economic and social development"<sup>1</sup>.

These powers extend to current control and to control of the operational results of national companies.

Current control involves daily checks on all payment and transfer orders given to the bank, on the flow of monetary receipts, wage payments, tax payments and outgoings for all other cost items. This is done on the basis of current account entries with supporting documentation submitted by the firm. Banks in fact make payments on behalf of client firms only if the latter, to the extent possible, produce documents showing that the expenditure concerned figures in the investment or operational plan. This is one of the reasons, incidentally, why the authorities are anxious to increase the use of bank money and to reduce idle monetary funds to the minimum required for transactions purposes.

Control of operational results, on the other hand, covers a certain period (a month, quarter, six months, a year) and is based on company accounts. Results achieved are checked against the targets of the investment or operational plan, they are examined with reference to each separate line of the company's activities,

<sup>1</sup> *Ibid.* p. 30.

and compared with those achieved by other firms of the same kind and with those of the whole sector concerned.

These controls, and especially the operational ones, are important, too, in connection with the repayment of any loans granted. In a collectivist society it is, of course, out of the question for a borrower to offer security of any kind, and so the only thing a bank can count on for loan repayment is such income as credits generate in planned uses. To know what firms are solvent is important also for deciding which of them may be eligible for subsidies and which may need rehabilitation. Loss-making firms are precluded from receiving budgetary subsidies but can get special rehabilitation loans from banks for such programmes as they have to work out to put their affairs onto a sound basis. In so far, finally, as default on loan repayments is regarded as a breach of contract and an expression of mismanagement, it attracts a number of penalties on the firm or its managers, which, in the words of the Finance Minister, constitute "real sanctions rather than costs which add to the losses already incurred and which generally are a matter of indifference to the management . . . Sanctions inflicted on the firm may take the form of a total or partial refusal of credit, a demand for reimbursement of outstanding debts, an increase in interest rates payable or even the blocking of accounts, or, with respect to the managers themselves, disciplinary or even penal sanctions and, in addition, heavy fines . . ." <sup>1</sup>.

So much for the system of planning investment by national enterprises and of arranging an appropriate flow of finance funds. But the authorities have likewise taken steps to control private investment, whether domestic or foreign <sup>2</sup>.

<sup>1</sup> *Ibid.*, p. 17.

<sup>2</sup> All private capital investment is governed by the Investment Code, which defines the conditions on which such investment is eligible for guarantees and for fiscal and financial facilities. See above, p. 25.

The volume of private investment, according to the Finance Minister<sup>1</sup>, must in principle be planned in the light of public investment and of the likely effect on money creation and the balance of payments. As regards funds for financing such investment, there are a number of restrictions: (1) Bank credits may not exceed 25-30 per cent of the total cost of the project, including working capital required in connection with it; (2) no credit may be for more than the medium term; (3) at least 50 per cent of the total cost of the project must be covered by the firm's own resources; (4) shareholders may contribute advances on current account or credits up to 25 per cent of the firm's equity capital, subject to these funds remaining blocked until the bank credits are repaid and to their carrying interest at a rate no higher than the medium-term bank credits; (5) if capital goods have to be imported in connection with private investment the firm concerned must cover "the greater part" of its related financial requirements by arranging for foreign credits, which are subject to prior authorization by the central bank.

## 7. FINANCING INDUSTRIAL INVESTMENT

Since the Finance Act 1970, productive investment by public enterprises is financed by credits of domestic and foreign origin. Under the new system, investment in industry involves three distinct steps: (a) inclusion of the investment project in the national planning schedule; (b) supply of credit and the conditions of its use; (c) rendering account of credit use.

### *(a) Inclusion of an investment project in the planning schedule*

Ordinance No. 70-10 of 20 January 1970 requires every investment project of public enterprises to be authorized by the

<sup>1</sup> Ministère des Finances, *op. cit.*, p. 27.



Planning Department, regardless of the source of finance funds. This applies, therefore, even to self-financed projects. No firm may commit any expenditure before completion of the necessary formalities.

First, a preinvestment study has to be prepared for submission to the Planning Department together with a technical and economic feasibility study passed on through the ministry responsible for the firm. The feasibility study must follow a standard form prescribed by the *manuel d'évaluation du projet* and contain all the information relevant to the investment decision. This first stage is called *maturation*.

On the basis of this documentation, the Minister of Planning, upon request of the minister responsible for the firm, either approves the project or, in collaboration with him and the institutions in charge of providing the finance funds, amends it. This second stage (*décision d'individualisation du Secrétariat d'Etat au Plan*) must be completed within four weeks of receipt of the feasibility study and the request of the minister responsible.

*(b) Supply of credit and the conditions of its use*

At the time when the request for inclusion in the investment schedule is made, the same documentation has to be submitted to the commercial bank with which the firm deals, to the C.A.D. and to the Central Bank, so that a finance plan can be prepared for the project. The commercial bank must examine the documentation within four weeks and pass on to the C.A.D. its proposals on how to finance the project. The C.A.D. re-examines the case in the broader context of making sure that the finance plan is rational and balanced in relation to the nature of the investment and to such other factors as the formation of savings and the balance of payments. Once a project is included in the

investment schedule and its finance plan approved by the C.A.D.'s executive committee (*autorisation de financement de la C.A.D. agissant par délégation du Ministère des Finances*), notice of credit authorization is communicated to the lending bank, the firm in charge of carrying out the project, the ministry responsible for the firm, the Ministry of Finance and the Planning Department.

The above system of preparing finance plans has been made applicable retroactively also to investment projects approved or in course of implementation before 1971. For purposes of bringing such earlier projects under the new control system, each firm concerned had to submit to the C.A.D. all the documents necessary for a finance plan, including a technical and economic feasibility study, an estimated operating account and a statement of commitments and payments as of 31 December 1970. The C.A.D.'s executive committee then prepared a finance plan in the light of the credits and funds obtained from the Treasury before 31 December 1970.

The credits figuring in the finance plan can be drawn on only after the conclusion of a credit agreement with the lending banks. The ruling principle is that credit agreements must be directly related to projects, and if, therefore, a firm is responsible for several investment projects, it must for each of them conclude an agreement with the C.A.D. and/or the commercial bank concerned in order to obtain, respectively, the long-term and medium-term credits forming part of the finance plan.

This agreement is a contract between the borrowing firm and the lending bank. As such, it specifies the obligations incurred by both, including the amount and terms of the credit and the conditions of its repayment. The time schedule of the supply of credit is determined on an annual basis, and money can be

drawn only as and when it becomes necessary for carrying out the project.

In conformity with the principles of financial planning and in order to facilitate control of credit use, firms are not left free to dispose of their borrowed funds as they please. First of all, they can touch their medium-term credits only after they have used up the full amount of long-term credits granted by the C.A.D. Secondly, banks may make payments on behalf of client firms only to meet expenditure previously authorized by the C.A.D., which keeps account of the progressive discharge of commitments for each project. Thirdly, for purposes of more effective control with respect to the implementation of investment plans and to the destination of credit, firms are required to keep separate investment and operational accounts with their bank. As was mentioned before (p. 134-135), investment accounts are debited solely for outgoings connected with the implementation of projects covered by credit agreements, whereas operational accounts, generally speaking, record movements of funds connected with the production process rendered possible by the investment. Funds may not be transferred from one account to the other.

Along with the investment accounts, the commercial banks have to keep record cards for every single project. These cards have three columns, one each for long-term, medium-term and foreign credits. The debit entries on the investment accounts are listed in one of the first two columns, to show how much of each type of domestic credit has been used. Under the third heading a record is kept of the mobilization of foreign credits from whatever source (suppliers' trade credits, government loans, loans from international financial institutions), and the relevant instructions specify that "mobilization of foreign credits means any acquisition by the firm of capital goods or the performance of

services on its behalf, if financed by such credits". Firms must inform their bank of any operations connected with this category of credits, and, for purposes of control and execution of payment orders, must submit to the bank documents to prove that the operation has taken place and the expenditure concerned has been authorized by the C.A.D. If a firm overspends its foreign credits, it cannot cover the shortfall by drawing on its long- or medium-term domestic credits, and if it does not fully utilize its foreign credits, it has to explain to the C.A.D. why this is so.

(c) *Rendering account of credit use*

The commercial banks have to send monthly statements to the C.A.D. detailing how much of each type of credit (long-term, medium-term and foreign) has been used for each separate project. Monthly and quarterly statements of the same kind have to be sent to the programme division of the Planning Department.

The C.A.D., in its turn, assembles all the information received from the banks, checks it and adds its own, and then transmits to the Finance Ministry and the Planning Department monthly and quarterly statements on credit use by credit category and project, together with a progress report on financing operations.

## 8. AGRICULTURAL CREDIT IN FRENCH ALGERIA

The history of institutional agricultural credit in Algeria is one of profound changes which, mainly since 1962, have transformed the pre-independence system of co-operative credit based on a pyramidal structure of *Caisses de Crédit Agricole Mutuel* into one of planned credit distribution centralized at the *Banque Nationale d'Algérie*. These changes, therefore, must be seen against the background of the pre-independence situation.



Algerian agriculture has always had the dualistic pattern typical of many developing countries, with primitive, traditional farming surviving alongside a modern sector.

In the modern sector, farms were distinguished by rational organization and dynamic management, crops were marketed and exported on a large scale, and production methods were capital-intensive. Until 1962 modern farming was, except for small local minorities, in the hands of French settlers in the coastal areas, which were not only the most fertile but also nearest to the markets and hence yielded high differential rents<sup>1</sup>.

In traditional farming, by contrast, holdings were mostly small, production methods were antiquated in every respect (use of fertilizers, tilling, crop rotation, implements), and most of the produce was consumed on the farm itself.

The two sectors were served by two separate agricultural credit systems. For modern farmers, there was a chain of local and regional *Caisses de crédit agricole mutuel*, for traditional ones the *Sociétés agricoles de prévoyance*. Both were eventually affiliated to a central institute of their own, and the modern sector had an additional source of finance in the *Caisse des prêts agricoles*.

(a) *Sources of credit for the modern farm sector*

Like so much else in Algeria, the institutions of agricultural credit were modelled on those in France. Leaving aside loans by the *Banque de l'Algérie* and by the Algerian subsidiary of the *Crédit Foncier de France* (*Crédit Foncier et Agricole d'Algérie*),

<sup>1</sup> "...la rente différentielle (indépendante des investissements faits) des terres de colonisation était déjà, en 1925, trois fois plus élevée que celle des terres possédées par les Algériens, ce qui permet d'affirmer que la moyenne des possibilités détenues par les colons était quarante fois plus élevée que celle des Algériens, grands propriétaires y compris, et soixante-dix fois plus élevée que celle des Algériens possédant moins de 50 hectares". (T. Tidafi, *op. cit.*, p. 41).

the first local agricultural credit offices were in fact set up when the French law of 5 November 1894 was extended to Algeria<sup>1</sup>.

Next came the creation of regional institutes of the same kind under the law of 8 July 1901. These *Caisses régionales de crédit agricole mutuel* were superimposed on the local ones and drew their capital from them as well as from individual farmers. They granted credit to member farms and refinanced local co-operatives. In turn, short-term bills could be rediscounted with the *Banque de l'Algérie*, with the possibility of repeated renewals up to 9 or 12 months, the duration needed for working capital credits.

These, in fact, were the kind of credits that the *caisses* mainly went in for. But what the farmers needed most was medium- and long-term credit to finance the purchase of equipment, rural building and plantations. They ended up by borrowing on the short term for their long-term financial requirements, which naturally enough got the *caisses* into economic and financial difficulties<sup>2</sup>.

In an attempt to remedy this situation the *caisses* were authorized to extend medium- and long-term loans in certain conditions. The decree of 25 May 1915, for instance, allowed them to make long-term loans to small owner-farmers for purposes of new land purchases, land transformation or structural changes on their property. Later provisions made room also for medium-term credits.

<sup>1</sup> With the support of the *Banque de l'Algérie*, a number of small local credit co-operatives sprang up at the time. Their loans were mostly for the short term and went to farmer members, whose subscriptions and deposits were supplemented, on the resources side, by funds raised on discounts from the *Banque de l'Algérie*.

<sup>2</sup> See P. Pascallon, "L'Expérience monétaire algérienne", *op. cit.*, p. 744.

More drastic steps were taken by the colonial authorities with the decree of 26 November 1925, which overhauled the whole organization and working of the local and regional agricultural credit institutes. Except for a few later amendments, the resulting system remained in force until the end of French rule.

First of all, the decree restricted membership to specified groups or associations and their members, to wit, professional farmers' groups, mutual insurance societies, agricultural co-operatives, unions of co-operatives and companies with specified agricultural purposes<sup>1</sup>. For regional *caisses*, it was laid down that they could accept as members only such local ones as had their seat in the region concerned and were not already affiliated with other regional *caisses*.

As regards the duration of credits, the local offices were authorized to extend short-term and medium-term credits (up to 15 years) to their members, and, to farmer-members only, even long-term loans (25 years) secured by a mortgage or a life-assurance policy. The regional *caisses* were to back the local ones by facilitating the short-, medium- and long-term operations of members and rediscounting the local offices' bill portfolio. They

<sup>1</sup> More especially those whose purpose it was, in the words of Article 22 of the decree of 26 November 1925, "...de procéder à la fabrication de toutes matières, de tous produits ou instruments utiles à l'agriculture, à l'exécution de travaux agricoles d'intérêt collectif...".

The agricultural credit institutes thus found their place alongside the co-operatives which they financed and which were concerned with the purchase of farm inputs as well as with the processing and marketing of farm produce, in a comprehensive system which worked well enough in some areas. The most successful example was that of the surroundings of Algiers, where a number of settlers had rich and profitable estates, with the result that the local *caisses* were well supplied with financial resources and were in a position not only to meet their members' credit demand at low interest rates, but had a surplus which they channelled to the regional institutes.

also distributed special state grants to farmers' groups or associations.

But the resources of the agricultural credit system were not plentiful enough to allow of much long-term lending, and eventually the authorities decided to set up a special credit institute for this purpose. This was done by the law of 28 July 1927, and the name of the new institute was *Caisse Foncière et Agricole d'Algérie*<sup>1</sup>.

The purpose of the *Caisse Foncière* was to supply the regional institutes with such funds as they needed, in addition to appropriations by the colonial administration, to satisfy the demand for medium- and long-term credit. Its own resources came from time deposits tied for more than two years, from the issue of bonds and mortgage certificates, and from credit lines with the *Banque de l'Algérie*<sup>2</sup>.

But it was a short-lived experiment. The agricultural credit institutes, for all that they were subject to government control, did not always conduct their affairs on orthodox principles, and used some of the funds they got from the *Caisse Foncière* in speculative ventures or at any rate otherwise than they were meant to. The great depression did not spare either France or Algeria, where the shortcomings of the agricultural credit system became only too obvious in the years 1932-1933.

It became clear that both the regional and the local *caisses* would have to be brought under much stricter administrative,

<sup>1</sup> This was a limited liability company set up for a term of 50 years, with a capital of 2 million francs subscribed half by the *Banque de l'Algérie* and half by the existing regional *caisses*. The board of directors had very broad powers, and consisted of six members appointed by the governor-general as representative of Algeria, and six members appointed by the regional *caisses*.

<sup>2</sup> See E. Picard, *op. cit.*, p. 381.



technical and financial control, so as to make sure that resources were used in ways compatible with their nature<sup>1</sup>.

It was in this spirit that the decree-law of 4 October 1935 definitively reorganized the structure and working of the agricultural credit system. The regional *caisses* were required to set up yet a new institution, the *Caisse Algérienne de Crédit Agricole Mutuel* (C.A.C.A.M.), whose function was described by Article 1 of its constituent law as "co-ordinating the activities of agricultural credit institutes, facilitating their operations and promoting the practice of mutual credit and agricultural co-operation through rural societies".

The C.A.C.A.M. also took over the activities of the *Caisse Foncière et Agricole d'Algérie*, but unlike the latter and the other agricultural credit institutes, had the status of a public corporation endowed with its own legal personality and financial autonomy, and was subject to the rules of public accountancy<sup>2</sup>.

The functions and powers of the C.A.C.A.M. may be summarized under the following three headings:

(1) To exercise administrative, technical and financial control with respect to the management of regional agricultural credit institutes and their associates; to introduce, and to promote the adoption, of all measures necessary for the efficient functioning of mutual credit and co-operation in agriculture;

<sup>1</sup> See P. Pascallon, "L'Expérience monétaire algérienne", *op. cit.*, p. 745.

<sup>2</sup> The board of directors of the C.A.C.A.M. was made up of six representatives of affiliated regional *caisses*, six representatives of "general agricultural interests", four government officials, one representative of the *Banque de l'Algérie*, and, after 22 June 1959, one representative of the French *Caisse Nationale de Crédit Agricole*. Within the board, and headed by its chairman, a nine-member executive committee was set up, on which all the above interests were equally represented. Finally, there were two government auditors, who had powers to veto any decision by the board or the committee.

(2) to administer a "common fund" created by the decree-law of 4 October 1935 for the purpose of pooling different types of resources in the light of particular uses;

(3) to take part, together with the *Caisse des Prêts Agricoles*, in any operations designed to reschedule short-term debts.

Controls were exercised in two ways. First, inspectors visited every single regional *caisse* at least once a year, in order to check its accounts and see how it worked. The local *caisses*, co-operatives and associated agricultural companies, in their turn, were subject to similar controls by the regional institutes or, possibly, directly by the C.A.C.A.M.

Secondly, the regional institutes had to submit to the C.A.C.A.M. at regular intervals certain records and statements of condition prepared on a standard pattern<sup>1</sup>.

Generally speaking, these controls were intended to make sure that no loans were granted for purposes other than to meet the financial requirements of agriculture, that the security offered by borrowers was adequate to cover the risks involved, and that resources were used in ways compatible with their nature.

In addition, the C.A.C.A.M. had powers to impose two kinds of restrictions on the activities of regional agricultural credit institutes.

<sup>1</sup> Article 11 of the law of 6 December 1940 provides that the C.A.C.A.M. "...établira les principes généraux de la tenue de la comptabilité des Caisses de crédit agricole affiliées aux Caisses régionales de crédit agricole mutuel et devra en recommander l'adoption à ces organismes de manière à harmoniser leurs écritures en vue de faciliter les contrôles auxquels elles sont assujetties. Dans la comptabilité et les bilans des Caisses régionales de crédit agricole mutuel et de leurs caisses locales affiliées, les diverses ressources qu'utilisent ces institutions ainsi que leur emploi tant à court terme qu'à moyen terme ou à long terme, devront figurer sous des rubriques distinctes".

The first of these concerned the amount of deposits and fixed-term notes which regional institutes were allowed to invest or keep liquid at commercial banks. Any funds beyond a fixed ceiling had to be paid over to the Treasury or the C.A.C.A.M., barring exceptions specially authorized by the latter.

The law of 6 December 1940, which defined the statute of regional agricultural credit institutes, further laid down that both the regional and the local offices receiving C.A.C.A.M. funds were allowed to use their deposits as well as money raised on fixed-term notes up to two years, to the extent that these funds were not handed over to the C.A.C.A.M., only for short-term credits. Funds tied for more than two years could be used for medium- and long-term credits, provided maturities were matched to those of the resources involved. The deposits of local offices affiliated with a regional institute, furthermore, had to be handed over to the latter at once.

The second restriction concerned the amount of short- or medium-term credit to be extended to any one borrower. Here again the C.A.C.A.M. had powers to impose a ceiling. Furthermore, under the law of 29 October 1935, no institute was allowed to grant any credit whatever to any member of its board of directors, except by special authorization of the C.A.C.A.M.

Besides its control and supervision functions, the C.A.C.A.M. was responsible for the management of a "common fund" of resources available for agricultural credit. This common fund was divided into two sections of very unequal size. The smaller one drew its resources from the liquidation of the *Caisse Foncière et Agricole d'Algérie*, the assets and liabilities of which the C.A.C.A.M. had taken over; it was used for acquiring shares in agricultural companies and co-operatives.

Much the greater part of resources went into section one of the common fund. These resources consisted of the following:

(1) Sums drawn from the so-called endowment fund for agricultural credit, which was set up by the law of 27 December 1923 for the purpose of making loans to regional agricultural credit institutes, co-operative societies, professional associations and agricultural companies eligible for affiliation with local agricultural credit institutes. When the C.A.C.A.M. was established, it took over the management of this fund from the Treasury;

(2) payments by all regional *caisses*, in amounts fixed by the C.A.C.A.M.;

(3) subsidies, including the proceeds of the annual payments the state levied from the *Banque de l'Algérie*;

(4) interest earned on all the above resources.

As regards the use of these resources, they were available for:

(1) short-, medium- and long-term credits;

(2) extraordinary payments to regional *caisses* either in monetary financial difficulties or in "friendly" liquidation;

(3) refinancing for regional institutes, in the form of rediscount of bills.

In practice, the C.A.C.A.M. extended loans both directly to regional institutes and, through them, to their associates other than local *caisses*<sup>1</sup>.

<sup>1</sup> For the purpose of facilitating the operations of the regional institutes and of the agricultural co-operatives associated with them, the C.A.C.A.M. was authorized to issue fixed-term notes with a minimum maturity of two years, and also to negotiate discount and rediscount facilities. It is under this provision that the French *Caisse Nationale de Crédit Agricole* arranged a discount ceiling up to which C.A.C.A.M. could mobilize medium-term credits eligible for immediate rediscount with the *Banque de l'Algérie*. (See E. Bloch-Lainé, *op. cit.*, p. 227).



Credit applications by regional institutes had to specify what category was involved: short-term credit, medium-term credit up to 15 years; or individual long-term loans (up to 25 years), either ordinary or special<sup>1</sup>.

Applications were first screened by the manager of C.A.C.A.M., but the decision rested with the Board of Directors. Long-term loans to agricultural co-operatives, however, were subject to approval by the Governor-General of Algeria, and so were exceptional cash credits to regional *caisses* in momentary financial difficulties and loans for the facilitation of any regional institute's "friendly" liquidation.

Regional institutes could mobilize with the C.A.C.A.M. their bill portfolio representing short-term credits by local *caisses*. It rediscounted bills of up to three months' duration and bearing the signatures of two representatives of the local *caisse* as well as that of either the chairman or the manager of the regional institute concerned. In practice the C.A.C.A.M. rediscounted bills only by prior agreement (usually credits of more than 30,000 dinars) and, in its turn, obtained the prior rediscount agreement of the *Banque de l'Algérie* for bills of certain amounts (usually those exceeding 100,000 dinars).

In addition to co-ordinating and controlling the activities of agricultural credit institutes, to granting loans to regional institutes and their associates, and to redistributing the resources received from regional institutes, the C.A.C.A.M. was authorized to take part, together with the *Caisse des Prêts Agricoles*, in any operation designed to reschedule the short-term debts of specified farm enterprises.

<sup>1</sup> Special loans were granted to particular categories of persons, such as servicemen or victims of the civil war.

This *Caisse des Prêts Agricoles* had been set up on 4 April 1935 as the successor of the 1932 *Caisse des Prêts Agricoles de Consolidation*, whose main function it had been to consolidate the debts incurred by settlers who had suffered heavily during the great depression<sup>1</sup>.

The *Caisse des Prêts Agricoles* made loans to farms hit by some disaster. These loans were financed mostly by budgetary funds; interest rates were very low, and the idea was that the loan should be used to repay debts contracted at higher rates and so enable the farm to carry on.

Once the institute had thus helped many farmers to reschedule their debts, it was made responsible for emergency loans to farmers whenever exceptional measures became necessary, most often in the wake of natural disasters.

From 1954 on, the *Caisse* was put in charge, on a continuous basis, of loans to (1) farmers who had suffered unpredictable, widespread and uninsurable losses; (2) farmers in economic and financial difficulties as a result of harvest losses, local disasters or the impossibility of selling their crops; (3) small and medium-sized farms unable to obtain credit from other credit institutes<sup>2</sup>.

For the first category of beneficiaries — who in effect were victims of events affecting the economy of a whole region — the *Caisse* had an emergency fund, on which it drew to grant farmers loans either to finance current production, to reschedule debts or

<sup>1</sup> Actually the *Caisse des Prêts Agricoles* did serve also the traditional farming sector, but, as P. Pascallon ("L'Expérience monétaire algérienne", *op. cit.*, p. 750) explains: "...si elle a pu par la suite avoir une action dans le secteur traditionnel, [elle était] fondamentalement au départ un organisme du secteur évolué... Il s'agissait de consentir initialement des prêts aux agriculteurs européens installés aux extrêmes limites de l'Algérie cultivable dans l'intention de pousser la colonisation aussi loin que possible".

<sup>2</sup> P. Pascallon, *ibid.*, p. 750-751.

TABLE 26

AGRICULTURAL CREDIT NETWORK FOR MODERN FARMING,  
31 DECEMBER 1961

Regions	Number of <i>caisses</i>		Number of members
	regional	local	
Algiers	6	65	12,881
Oran	9	12	14,356
Constantine	7	17	22,091
Total	22	94	49,328

to make good the losses incurred. For the second category, that is, for farmers in local disaster areas, the *Caisse* made similar loans available in all cases where either the *Caisses de crédit agricole mutuel* or the *Sociétés agricoles de prévoyance* had failed to provide funds for carrying on the farm enterprise. As regards the third category of beneficiaries, finally, the *Caisse* was entitled to extend credit at market rates to such farms as were unjustly discriminated against by agricultural credit institutes of either kind or by the banking system.

To sum up, then, the modern farming sector in French Algeria had two sources of credit: the *Caisse des Prêts Agricoles*, and a pyramidal system of local and regional mutual credit institutes, with the C.A.C.A.M. at the apex exercising overall technical, administrative and financial control. On the eve of independence, on 31 December 1961, the distribution of *caisses* and their membership was as shown in Table 26.

(b) *Sources of credit for the traditional farm sector*

Credit for traditional farmers in French Algeria was distributed through a chain of provident societies called *Sociétés agricoles de prévoyance* (S.A.P.), with the *Caisse Centrale des*

*sociétés agricoles de prévoyance* (C.C. des S.A.P.) at the apex. This system was the successor of a much older one, consisting of *Sociétés indigènes de prévoyance* (S.I.P.) affiliated to a *Fonds commun des sociétés indigènes de prévoyance*<sup>1</sup>.

Contrary to the regional agricultural credit *caisses*, the geographical competence of the S.A.P. was defined in terms of *arrondissements*, each district being further subdivided into between five and fifteen sectors. In each sector, S.A.P. members elected a council which concerned itself with their particular

<sup>1</sup> The origin of these "native provident societies" goes back to 1867, when the first of them began to be set up in an effort to combat usury and famine. As time went on, they concentrated more and more on the traditional farming sector, which had no access to the organized credit market and hence was the worst sufferer from usury.

The S.I.P. received legal recognition in legislation dated 14 April 1893, and a standard statute in December 1894. The law allowed short-term credit only, but even apart from this legal restriction the S.I.P. were severely hampered by scarcity of resources, the bulk of which consisted of membership subscriptions. Drawing on the experience of the system of the modern farm sector's agricultural credit institutes, the problem was tackled on similar lines by the creation of a common fund, the *Fonds commun des sociétés indigènes de prévoyance*. Under the law of 19 July 1933, this was to act as a credit institute and clearing house for the S.I.P., all of which contributed their quotas to the common fund constituted in the first place by 50 million francs from the *Banque de l'Algérie*. In 1938 the *Fonds commun* was given the status of a public corporation endowed with its own legal personality and financial autonomy, and later the decree of 6 August 1943 redefined its structure and functions. The management of the institute was the responsibility of a board under the chairmanship of the Secretary General of the government, and, in addition to its own resources, its supply of funds came from S.I.P. deposits, from budget appropriations and from bank credits guaranteed by the *Banque de l'Algérie*. With these resources, the *Fonds commun* was to back the S.I.P. with credits and extraordinary subsidies. Later still, in an attempt to unify the institutional structure of the two agricultural credit systems, the decree of 26 March 1956 transformed the *Fonds commun* into the *Caisse centrale des sociétés agricoles de prévoyance*, the S.I.P. themselves having in the meantime undergone a number of changes and emerged (28 August 1952) with rather wider scope as *Sociétés agricoles de prévoyance* (S.A.P.). For more detail see P. Pascallon, "L'Expérience monétaire algérienne", *op. cit.*, p. 779-785.



problems, and the chairman of which formed part of the parent society's decision-making body, the board of directors. Each society's board had two additional members, both appointed by the prefect in the light of their farming experience and competence.

Under the decree of 28 August 1952, the *Sociétés agricoles de prévoyance, de secours, et de prêts mutuels*, to give them their full title, were defined as co-operative societies helping their members in the field of production, processing and marketing of produce, and also by supplying them with goods and services for running the farms. The S.A.P., therefore, had both credit and production functions. They were entitled to accept deposits from members and to grant them credits in cash or kind, and also to engage in co-operative farm activities and services. Although these various functions were distributed among appropriate sections (grains, other crops, farm inputs and credit)<sup>1</sup>, they were nevertheless institutionally centralized. The resulting integrated credit-services system differed from the modern sector's agricultural credit institutes, which were concerned with credit only and left agricultural activities to the separate system of co-operatives.

A similar separation of functions was introduced by a reform of the S.A.P. in 1960. On that occasion the *Caisse Centrale* of the S.A.P. was, in its turn, given wider powers with respect to credit distribution. Hitherto, the *Caisse Centrale* had extended credit to the S.A.P. both for their non-credit activities and for covering the short-term financial requirements of their members, but had no effective control over the distribution and use of these credits. Medium- and long-term loans did not go through the S.A.P., but were granted directly by the *Caisse Centrale* to the farmers concerned.

<sup>1</sup> Not to speak of insurance and social assistance.

With the decree of 9 April 1960 the S.A.P. lost the right to extend any direct credit at all to their members, and became mere intermediaries between them and the *Caisse Centrale*, which, by the decree of 2 June 1960, was given sole responsibility for all categories of credit. The intention was to establish a strict distinction between loans to S.A.P. members and credits used by the societies themselves in their own production activities. This, it was hoped, would not only enhance the effectiveness of control over the destination of *Caisse Centrale* credits for both purposes, but also spread credit more widely by preventing the S.A.P. from keeping back an undue portion of funds for their own activities<sup>1</sup>.

But in spite of all these good intentions, the experience of the S.A.P. and their *Caisse Centrale* was not a happy one. First and foremost there was the problem of resources. Here the situation was very different from that of the modern sector's system of agricultural credit institutes. The latter, barring a few inevitable exceptions, were dealing with profitable co-operatives and farms which grew cash crops and hence could count on sales proceeds for loan reimbursement. Naturally, reimbursement capacity depended largely on export prices, but still, the risk of default was fairly remote. The same could not be said of the S.A.P., generally speaking. They were dealing with primitive farms where much of the produce was consumed on the spot, and often enough there was little over for sale, which would have

<sup>1</sup> The behaviour of the S.A.P. was open to criticism on a number of points, as A. Tiano explains (*op. cit.*, p. 216-217): "L'arbitraire et le retard des crédits ainsi que leur cherté étaient les principaux. Il est vrai que des frais fixes, souvent inutiles (frais de billet notarié pour un prêt sur gage) venaient alourdir le taux qui pouvait monter jusqu'à 22.5%. Le retard dans la distribution des crédits était dû à la lourdeur administrative et aux difficultés financières. En effet, les avances de la Caisse Centrale portaient intérêt à 5.1%, donc, de crainte de conserver des fonds improductifs mais coûteux, les S.A.P. ne s'approvisionnaient en crédit qu'au dernier moment".

provided cash for loan repayment. At least partial default on loans was very likely in these circumstances, if indeed not certain. The S.A.P. system was propped up by Treasury credits to the *Caisse Centrale*, but even so its resources fell short of what was needed for the development of the traditional farming sector, which was in addition handicapped not only by social but also by economic factors, such as the geographical location of farms and the lack of infrastructures and adequate marketing circuits.

The second big problem was that of control of credit use and of actual production in physical terms, especially with respect to individual farmers. This problem was tackled by an arrangement under which it was not the beneficiary farmer himself, but his S.A.P. that had actual disposal of the borrowed funds. Even so, there was little chance of improving a borrower's repayment capacity, since adequate checks on production were impossible in a situation where few farmers had more than an elementary notion of economics, where bookkeeping was unknown or at best rudimentary, and where holdings were highly fragmented.

What happened in practice was that the farmer got from his S.A.P. a loan in kind or in the form of services, repayable by an appropriate part of his crop. The S.A.P., in its turn, used the credit for paying those who furnished the inputs or services concerned. The S.A.P. therefore, acted as an all-purpose co-operative: against the loan granted, the farmer asked for seeds, materials, work, etc., all of which were furnished by the S.A.P. either directly, to the extent that as a co-operative it was able to do so, or indirectly by its finding outside suppliers. The credit itself was used by the S.A.P. either to pay itself and thus strengthen the co-operative, or else to pay the outside suppliers.

Thanks to this system, the S.A.P. could make sure that the borrower got goods and services strictly connected with his

TABLE 27

AGRICULTURAL CREDIT NETWORK FOR TRADITIONAL FARMING,  
31 DECEMBER 1960

Regions	Number of provident societies (S.A.P.)	Number of members
Algiers	25	153,798
Oran	24	84,845
Constantine	31	208,182
Sahara	10	53,400
Total	90	500,225

production; it had no means of physical control, however, and thus could not make sure that he used them to best effect in the production process. Furthermore, in the absence of educational and extension work, there was a good deal of waste and underutilization of factors of production, much to the detriment of the quantity and quality of the crops. A farmer's grain crop, for instance, had to be handed over to the grain section of the S.A.P., which sold it and gave the farmer the difference between the proceeds and the loan he had contracted. The bills of exchange the S.A.P. received on marketing could be discounted, up to a certain ceiling, with the C.A.C.A.M., which in its turn made arrangements for rediscounting with the *Banque de l'Algérie*. Once the credits were mobilized, the S.A.P. should, in theory, have been able to repay its debts to the *Caisse Centrale*, and the latter its own debts to the Treasury.

But this was by no means the general rule. Because factors of production were not optimally used or combined on the farm, and because part of the produce was consumed by the farmer's family, the marketable crop was often not enough to cover loan



repayment. In some cases, when the amount involved was very small, or when the nature or location of the farm warranted it, the credit was renewed and in effect turned into a grant; in others, default was followed by sale of the land, usually to be added to medium-sized or large estates in European or Moslem ownership.

On 31 December 1960, the distribution of S.A.P. and membership was as shown in Table 27.

## 9. AGRICULTURAL CREDIT: POST-INDEPENDENCE CHANGES

In the wake of the war and the political upheavals surrounding Algeria's accession to independence, the pattern of land tenure underwent radical changes, as the property of former European settlers passed into self-management by Algerians. This happened in three distinct stages.

First, some order had to be brought into the chaotic situation of what was officially known as vacant property. After the exodus of the settlers in the summer of 1962, a number of farm estates had simply been appropriated either by private individuals or some national group or organization. The Provisional Executive and later the new government stepped in quickly with a number of measures, to wit: (1) the prohibition of any transfer of agricultural machinery from vacant farms and their protection (ordinance of 24 August 1962); (2) the establishment of management committees on vacant farms, with the provision that, in case the owner should return, these should have a share both in management and the profits (decree No. 62-02 of 22 October 1962); (3) the blocking of all transactions involving a transfer of land ownership (decree No. 62-03 of 23 October 1962) — many settlers having tried to cut their losses by selling land to the Algerian gentry, for whom this was a good opportunity to enrich themselves.

These first steps brought no radical change in the *statu quo*, for the main worry of the authorities at the time was to stop the decline of the big estates and its harmful effects on the economy.

The redistribution of land ownership had to wait until the second stage, in the following year, when a series of measures between March and May 1963 nationalized some 200,000 hectares of land belonging to 127 colonial estates, on the grounds either that they were not being properly run by their owners, or else were owned by persons "hostile" to independence, for whom there was no room in the new social and economic context. Three important decrees were issued in March. (1) Decree No. 63-88 of 18 March 1963 laid down rules for the acquisition of vacant property, redefining the latter as any estate no longer farmed for the two months following the declaration of independence, instead of merely those abandoned between July and October 1962; (2) decree No. 63-95 of 22 March 1963 organized the system of self-management with detailed division of rights and duties among all concerned; (3) decree No. 63-98 of 28 March 1963 added rules for the distribution of the profits of self-managing farms.

The third stage, finally, came with the wholesale nationalization of all foreign-owned land<sup>1</sup> on 2 October 1963. As a result, the self-managing farming sector came to occupy roughly 2,650,000 hectares, formerly belonging to some 22,000 European settlers.

<sup>1</sup> In this connection A. Tiano (*op. cit.*, p. 228) contrasts Algeria's drastic approach with the "prudent hesitations" of Morocco and Tunisia, and explains: "Il ne fut pas question d'indemnisation à la fois en raison de la thèse algérienne selon laquelle la légitimité de cette propriété n'a jamais été librement reconnue et en raison de la valeur considérable de ce patrimoine qui représentait environ 8 milliards de francs pour les terres et 2 milliards pour le cheptel et le matériel. La France n'admettant pas les nationalisations de mars 1963 préleva simplement 200 millions de francs sur son aide financière".

But all this redistribution of land ownership did nothing to eliminate the dualistic structure of Algerian agriculture. All that happened was that much of the land previously in private ownership passed under socialist self-management.

There were now three types of farm property run on entirely different lines. There were the self-managing estates farmed by what was considered a privileged group of people. Then there was private property belonging to well-to-do local landowners who had acquired additional land in 1961 and 1962. And finally there were the small holdings of the fellah owner-farmers. This situation, in the view of the authorities, called for a land reform by which the property of absentee landlords, for whom farm land was merely a form of investment, would be redistributed among the rural population, not least in order to redress some of the imbalances and ease the friction that had arisen among the social classes<sup>1</sup>. A land reform scheme was in fact worked out as early as 1964, but nothing definitive has happened so far. Not long ago the government drafted a new bill and is obviously still determined to solve the problem at last.

The emergence and expansion of self-management in farming led to a reorganization of the system of agricultural credit. The

<sup>1</sup> In the words of T. Tidafi (*op. cit.*, p. 40): "Dans le secteur traditionnel, il existe un antagonisme entre la masse des 'fellahin' et la bourgeoisie terrienne. Dans le secteur autogéré, cet antagonisme existe entre les autogestionnaires et l'administration qui, pour différentes raisons, accepte assez mal de voir ce secteur important lui échapper". The same author adds (p. 42): "La répartition actuelle permet à quelques milliers de grands propriétaires d'employer une masse d'ouvriers agricoles, de paysans sans terre ou de métayers... Si l'on excepte le secteur autogéré, où les producteurs sont juridiquement possesseurs des moyens de production, mais qui englobe, tout compte fait, qu'une partie infime de la population rurale, même si économiquement il est prédominant, on peut dire que, tout comme la répartition de la propriété, les rapports sociaux de production restent ce qu'ils étaient avant l'indépendance et le resteront tant qu'une réforme agraire et une organisation nouvelle de l'agriculture tenant compte des options proclamées, n'auront pas vu le jour".

successive changes can be divided into five distinct phases, of which the first four are described below, whereas the fifth and last will be discussed separately in section 10.

(a) *The first phase: October 1962 to April 1963*

Before independence, there were no particular problems in financing the modern farm sector. Would-be borrowers were in a position to offer adequate security both in real terms and as regards earnings capacity, and in case of widespread disasters they could fall back on the consolidation credits of the *Caisse des Prêts Agricoles*. The approach of independence altered all this. Fear of nationalization led the European settlers and some of the Algerian landowners to withdraw their deposits from the agricultural credit institutes, and some of them even to incur debts so as to have more money free for transfer to France. Deposits fell dramatically from 317 million dinars in 1960 through 178 million in 1962 to 112 million in 1963. What is more, most of the loans were not repaid, so that the C.A.C.A.M. found itself with unrecoverable assets of some 200 million dinars and the *Caisse des Prêts Agricoles* similarly with another 95 million dinars of defaults<sup>1</sup>.

On top of this financial and economic crisis, the agricultural credit institutes lost most of their senior staff, many of whom were French. Thus doubly crippled, they were quite unable to meet the financial requirements of the self-managing farm sector. In any event, the whole system of agricultural credit institutes as it was at the time was tailored to the principles and requirements of private enterprise and simply did not fit into the new socialist context without appropriate legal and organizational changes.

<sup>1</sup> A. Tiano, *op. cit.*, p. 219-220.



The chain of local and regional *Caisses de crédit agricole mutuel* which had served modern farmers in the past, now merely carried on, on a much reduced scale, with serving the few remaining settlers and also local landowners, but were no use to the authorities in the new situation. The task of providing working capital credits to farms declared vacant property was, therefore, assigned instead to the *Caisse Centrale des S.A.P.* and its affiliates.

But the S.A.P. system, which had always dealt only with traditional farmers, had nothing like the resources required for meeting the credit needs of the modern farm sector. Hence the Treasury had to step in. It did so, in this first phase, with credits to the *Caisse Centrale des S.A.P.*, leaving the latter to distribute them, through the affiliated S.A.P., to the farms provisionally under self-management.

Apart from the fact that the Treasury itself did not have enough budgetary funds but had to borrow from the central bank, this arrangement would not have occasioned any serious problems if the S.A.P. had really distributed the credits in accordance with the effective financial requirements of the farms concerned, and if the latter had repaid their loans. But neither condition was met. The S.A.P. had never before had any contact with the now self-managing farms and thus were in no position to assess their financial needs. They were not, themselves, adequately organized for such a purpose, and the farms, after the departure of their owners, could furnish neither accounts nor other documentation or information to shed light on their management and financial situation. The whole system of self-management was still in its infancy, and many of the individual farms were in a state of disarray. They were not organized, the various bodies which, according to the law, were supposed to be responsible for

management were inefficient, nobody knew about the rational use of factors of production and about the farming methods employed by the previous owners, some factors of production were wasted or underutilized or diverted from collective uses for the sake of private interests. Small wonder, then, that the productivity of these farms collapsed and that the quantity and quality of their crops declined<sup>1</sup>. Sales proceeds were not enough to cover loan repayments and insolvency became the general rule among self-managing farms. Many of them were unable to set aside anything at all for depreciation, and the legal rules for profit appropriation were meaningless for the time being<sup>2</sup>.

<sup>1</sup> Not all those taking part in self-management always behaved in accordance with its principles or, for that matter, with the law. Especially during the early years, for instance, the management committee was not in actual fact subject to control by the workers' council, for the very simple reason that there hardly ever was one as required by law. The general assembly hardly ever met at all, with the result that the management committees became power groups which sometimes pursued their own interests against those of the assembly and managed the farm for their own purposes (see A. Tiano, *op. cit.*, p. 228 ff.). As H. Temmar (*op. cit.*, p. 25) puts it, the self-managing sector of agriculture "n'était confié véritablement ni aux travailleurs, ni à l'Etat; il était laissé au fait du hasard, au gaspillage et à l'anarchie la plus grande. Pratiquement... il était impossible de savoir qui était responsable et qui ne l'était pas, où se situait exactement la responsabilité du secteur agricole socialiste; il était totalement impossible d'obtenir la moindre comptabilité, que ce soit au niveau du domaine ou au niveau de la tutelle".

Economically speaking, too, the results in early years were none too satisfactory and production declined, both in terms of quantity, since yields on the socialist farms dropped to the levels of traditional farming, and of quality, especially in fruit and vegetable growing.

T. Tidafi (*op. cit.*, p. 104) comes to the same conclusions: "Tout se passe comme si le secteur autogéré était une immense entreprise, mal gérée pour le compte de l'Etat. Dans l'impossibilité où il se trouve de connaître vraiment les résultats financiers de son activité et par conséquent de prendre les décisions qu'impliquerait l'analyse de ces résultats, le comité de gestion ne peut pas diriger concrètement l'entreprise".

<sup>2</sup> A. Tiano, *op. cit.*, p. 236.

Before anything effective could be done about the cost and supply of credit to agriculture, therefore, another problem had to be solved first. That was the problem of an administrative and technical reorganization of the self-managing farms, of controlling their activities, and of creating a link between them and the S.A.P. in the form of a new institution capable of assessing financial requirements and of co-ordinating the distribution of agricultural credit. The idea was to prevent the indiscriminate distribution of Treasury funds to agriculture at the discretion of the S.A.P. and their *Caisse Centrale*, and instead to make credit distribution subject to precise instructions by a new agency, endowed in addition with powers of control vis-à-vis both the self-managing farms and the S.A.P. system.

This was the reasoning behind the creation of the *Office national de la réforme agraire* (O.N.R.A.). This was established on 18 March 1963 as a public corporation with its own legal personality and financial autonomy. Initially, it was assigned the function of promoting and carrying out a land reform programme and of organizing management in the self-managing farm sector. Soon afterwards, on 25 April 1963, it was made responsible for supervision and administrative control of the *Caisse Centrale des S.A.P.*, which assumed the new name of *Caisse Centrale des Cooperatives et de Modernisation Rurale*. Its affiliated *Sociétés agricoles de prévoyance*, the old S.A.P., in turn changed their name to *Centres coopératifs de la réforme agraire*.

Another decree of 25 April 1963 laid down that "all credits, advances and subsidies to self-managing farm enterprises must go through the O.N.R.A. alone". Accordingly, a *Comité des crédits et avances* was set up within the O.N.R.A., under the chairmanship of the latter's general manager and including one representative each of the Finance Ministry, the Ministry of Agriculture and

Land Reform, the Central Bank, the C.A.C.A.M. and the *Caisse Centrale des S.A.P.* This committee examined the credit applications of self-managing farms, as passed on by the departmental O.N.R.A. representatives.

The decree which introduced these arrangements also gave the O.N.R.A. powers to borrow from the banking system and to guarantee such bank debts as the farms themselves might have incurred. In practice this was never done, mostly because the banks thought the risks too high even with the guarantee of a public agency.

Finally, a new rule required self-managing farms to keep only one deposit account at one single S.A.P. Funds owed to such farms or held on their behalf by anyone had to be deposited with the O.N.R.A.

The inauguration of the O.N.R.A.'s operations in May 1963 marks the beginning of the second phase in the reorganization of agricultural credit.

*(b) The second phase: May 1963 to February 1964*

Treasury funds were now no longer allocated directly to the *Caisse Centrale des S.A.P.*, but instead to the O.N.R.A. Self-managing farms applied for credits to a S.A.P. which passed the application on to the O.N.R.A. for examination by the *Comité des crédits et avances*. The relevant decisions were communicated to the S.A.P. concerned for action. Except for wage payments, however, the S.A.P. did not pay out the credit in cash to the successful applicant but, according to its own system described earlier, used the money to make payments on the farm's behalf upon presentation of documents justifying the expense, or else supplied it with goods or services. The *Caisse Centrale des S.A.P.* took care of distributing O.N.R.A. funds among the affiliated S.A.P., in strict accordance with O.N.R.A. instructions.



But these changes still did not make the system efficient enough, and in any case nothing had improved as yet in the organization and management of the farms themselves. Their inability to repay loans was still the big problem — naturally enough, since the credit arrangements devised for the overriding purpose of keeping production going were not backed by any machinery for assessing the real financial needs of agriculture and for controlling credit use, production, productivity and marketing.

In an effort to improve matters at least to some extent, a set of decrees dated 13 June 1963 set up provisional commissions to supersede the boards of directors of the *Caisse Centrale des S.A.P.*, the *Caisse des Prêts Agricoles* and the *C.A.C.A.M.* This was of some importance in the case of the latter two institutes, in so far as the government hoped by their Algerianization to gain control of credit to private farm enterprise and at the same time to insert them into the system of credit for the self-managing farms which they have served before, under the previous owners<sup>1</sup>.

In addition to the above problems there was the closely connected one of where the funds were to come from. Clearly, the Treasury could not go on forever handing out money without limit. There were two alternatives: either to draw in the banking system, or to have the Central Bank intervene directly, under Article 46 of its statute.

The banking system, of course, was still made up of foreign banks at the time, and they were prepared to co-operate only on certain conditions. They insisted on the formation of a consortium of all banks and all the public Algerian agencies concerned for the mobilization of credits to the O.N.R.A. One third of these

<sup>1</sup> As will be seen presently, C.A.C.A.M., together with the B.N.A., on 1 October 1966 took over from the O.N.R.A. and the S.A.P. in financing the self-managing farm sector.

credits were to be of Algerian origin, all of them were to be state-guaranteed and the Central Bank was to undertake to rediscount them. Finally, the banks set the interest rate at 4 per cent, which, in case of rediscount, would have left them with a profit margin of 0.50 per cent<sup>1</sup>.

The authorities felt that this was altogether too expensive a way of getting the banking system to provide money for agricultural credit. The rediscounting facilities in any case implied money creation by the central bank, and so it seemed better to cut out the detour and let the B.C.A. intervene directly. This indeed was the characteristic feature of the third phase.

*(c) The third phase: March 1964 to September 1966*

The B.C.A.'s direct intervention took the form of annual credits to the O.N.R.A., which were made available on a quarterly basis and distributed to self-managing farms via the *Caisse Centrale des S.A.P.* and the S.A.P. chain. For loan repayment<sup>2</sup> the O.N.R.A. relied on the sales proceeds of the produce which the farms had to deliver to O.N.R.A. collection centres.

Generally speaking, the credit system rested essentially on concentration of decisions with the O.N.R.A. This was necessary because of the disorganization of the self-managing farms and their lack of experienced senior personnel, but it certainly did put these farms in a subordinate position vis-à-vis the public administration.

<sup>1</sup> See P. Pascallon and J. F. De Laulanie, *op. cit.*, p. 21.

<sup>2</sup> Large-scale defaults were still common in this phase, but they were accepted as the only alternative to total paralysis. As P. Pascallon and J. F. De Laulanie explain (*op. cit.*, p. 23): "Il s'agissait de donner à ce très important secteur de la production tout ce qu'il fallait pour le maintenir en état. Ce qui importait, en effet, avant toute chose, c'était d'accorder à l'Algérie indépendante les moyens de subsister et de garder autant que possible intacts ses marchés extérieurs. Dans cette perspective le remboursement des fonds injectés dans ce secteur devenait dès lors une préoccupation de second plan".

Consequently, the members of the self-management teams often took little interest in the farm enterprises of which they did not even know the results. But the system was open to criticism on other counts as well <sup>1</sup>.

- (i) There was too much guesswork in assessing financial requirements, given that crop programmes were not worked out in full, cost estimates were often faulty and the coefficients used to determine finance needs were not calculated on suitable standards;
- (ii) there was no efficient system of controlling credit use, and so it was impossible to make sure that credits were not diverted to purposes other than those for which they were granted — for instance, money given for raising production or the upkeep of farm equipment was used instead to pay off a backlog of wages;
- (iii) the actual amount of credit any farm received was often quite unrelated to its real needs, which meant that some got more than they needed and others lacked the essential;
- (iv) a good deal of the credit granted to self-managing farms was used up by marketing organizations instead;
- (v) and the O.N.R.A. itself, finally, had taken on so many functions (financial, production, marketing) that it was smothered in its own red tape and had the greatest difficulty in following the farms' finance plans.

In view of all these shortcomings a number of reforms were planned in 1966 for the coming agricultural year and became effective in 1967. The main purposes of these reforms were (1) to decentralize the system of self-management in agriculture

<sup>1</sup> See "Pour une politique de rationalisation du crédit agricole", Algérie Presse Service, *Bulletin Economique*, No. 126, February 1969, p. 8.

by a strict separation of the tasks and responsibilities of all the various institutions involved, with particular emphasis on enlarging those of the farms themselves; (2) to improve the mechanism of self-management at farm level; (3) to raise productivity. In practice, this meant a drastic reorganization all along the line, from government level through the circuits of credit and marketing down to the actual conduct of affairs in the self-managing farms.

This fourth phase in the post-independence history of agricultural credit lasted until 1 October 1968, when the *Banque Nationale d'Algérie* became the sole source of finance for agriculture in the system of planned credit distribution.

(d) *The fourth phase: October 1966 to September 1968*

The main point of the new set of reforms was that the *Office national de la réforme agraire* was discontinued as of 1 October 1966. Responsibility for the socialist farm sector passed from the O.N.R.A. to the Ministry of Agriculture and Land Reform. There had previously been some overlapping of authority between that Ministry and the O.N.R.A., and also a lot of confusion in the relations among all the local agricultural and marketing organizations with which the O.N.R.A. had occasion to work<sup>1</sup>. Some co-ordination at operational level seemed urgently called for. As of 1 February 1967, therefore, a *Direction Départementale de l'Agriculture* (D.D.A.) was set up in each of Algeria's administrative *départements*, with the specific function of co-ordinating all relative activities in its area, as well as of rendering technical assistance to self-managing farms.

<sup>1</sup> To wit: the D.S.A. (*Direction des services agricoles*), the C.D.R.A. (*Commissariats départementaux de la réforme agraire*), the C.C.R.A. (*Centres coopératifs de la réforme agraire*, formerly S.A.P.), the C.O.R.A. (*Coopératives de la réforme agraire pour l'exportation*), and the C.O.R.E. (*Coopératives d'écoulement pour le marché intérieur*).



But the O.N.R.A. had also been the key institution in agricultural credit — in practice, a banker without a banker's rights. Its disappearance raised the problem of reorganizing the whole system of finance for socialist agriculture. Ultimately, the *Banque Nationale d'Algérie* was to be given a monopoly in this field, but in the meantime and as an interim solution, the task of financing self-managing farms was assigned to the C.A.C.A.M. and its affiliated *caisses*, under the control of the B.N.A.

Some time earlier, in 1965, the central authorities had begun reorganizing the co-operative agricultural credit *caisses* on a new basis. If these were to be effectively integrated into the credit circuits, they had to have an adequate mechanism for assessing and meeting credit needs. The first step in the direction of unifying a large part of the agricultural credit system was taken with the decree of 5 May 1965. This decree dissolved the provisional administrative commissions of the C.A.C.A.M., the *Caisse Centrale des S.A.P.* and the *Caisse des Prêts Agricoles*, and replaced them by two joint bodies, an administrative commission and a management committee. Another decree of the same date reorganized geographical coverage by laying down that in each *département* there must be at least one regional *caisse*, which in turn must have at least one agency in each *arrondissement*. These latter district agencies were thus to replace the former local *caisses* and to deal directly with the self-managing farms.

It made a lot of sense to use the existing *caisses* once they had been brought under government control. They were better organized than the S.A.P. and knew more about the management and production techniques of the self-managing farms. The new system of distributing agricultural credit was not perfect, but it was a great improvement on the preceding one from the point of view of meeting the financial requirements of the socialist farm sector.

The system worked as follows. Each farm sent to its appropriate regional *caisse* a fairly detailed production plan together with a statement on inputs and on stocks of consumable goods<sup>1</sup>. The *caisse* examined the production plans and estimated what it would cost to carry them out. In so doing it used pre-established coefficients varying according to types of crops. These were expressed in unit costs per hectare, and thus made it possible to calculate expected financial requirements for the crop year<sup>2</sup>.

This method, of course, resulted in rather rough approximations. Conscious of this defect, the C.A.C.A.M. in 1967 differentiated the cost evaluation coefficients by cost items, such as labour, mechanical traction, raw materials, etc.; the average production cost calculated by summing these certainly was more realistic.

After the C.A.C.A.M. and the B.N.A. had approved the financing plans of individual farms, the appropriate regional *caisse* proceeded to grant and administer the credits concerned. Approval by the B.N.A. was of the essence, since that bank provided both the C.A.C.A.M. and the regional *caisses* with the necessary loanable funds. The C.A.C.A.M., on the other hand, which did not have enough independent resources of its own, acted not so much as a credit institute than as technical adviser and intermediary between the B.N.A. and the self-managing farm sector.

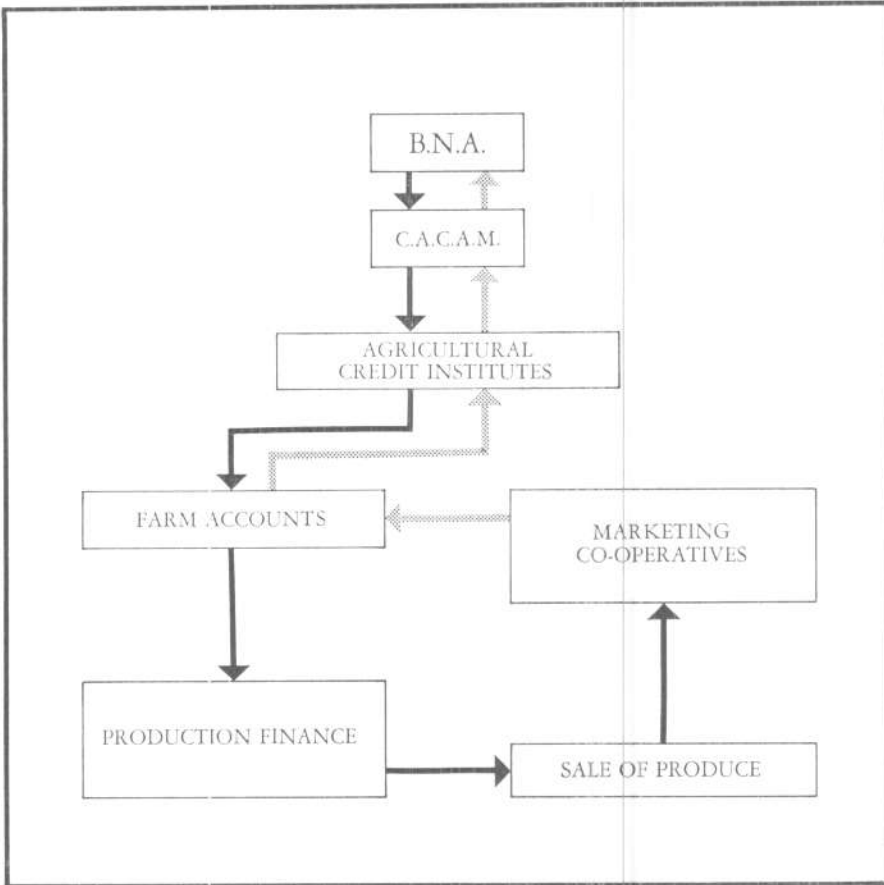
<sup>1</sup> To help farms with this and with orderly bookkeeping, managing centres and accounts co-operatives were set up.

<sup>2</sup> By way of illustration, here are some of the standard expenditures applicable to the crop year 1966/1967:

vineyards	1,500 dinars per hectare
citrus fruit	2,000 dinars per hectare
wheat	300 dinars per hectare
oats	180 dinars per hectare

(“L'Evolution du financement de la production agricole”, Algérie Presse Service, *Bulletin Economique*, No. 142, October 1969, p. 24).

In the books of the regional credit institutes, two current accounts were kept for each self-managing farm. One of them, account A, was credited with the net proceeds of bills made out by the farms and debited only with payments for current expenditures. All entries, therefore, originated directly with those responsible for the management of the farm concerned. The second account, account B, was credited with sales proceeds and debited with loan repayments. The credit circuit can be graphically represented as follows.



However, this system had some drawbacks for the self-managing farms. Payments were subject to a number of administrative formalities, including double approval of each expenditure document, both by the agricultural credit institute and by the *Direction départementale de l'agriculture*. It took on the average two months before a farm actually got any funds, and further delays were occasioned by the C.A.C.A.M.'s dealings with the B.N.A. The effect on farm management could be serious.

For this reason, the system was altered in some respects during the crop year 1967/1968, on the basis of an agreement between the B.N.A. and the C.A.C.A.M. Under this agreement, the C.A.C.A.M. was to put its own network of regional *caisses* at the disposal of the B.N.A. and was also to be responsible for control of the self-managing farms' expenditure. The B.N.A. was to take care of the payments concerned, to which end it was made obligatory for borrowing farms to open a current account with the B.N.A. In effect, each farm's account with the C.A.C.A.M. recorded the amounts of checked, and hence committed, expenditure, whereas its B.N.A. account showed payments actually made<sup>1</sup>.

Before going on to discuss the final phase of the reorganization of agricultural credit, a few words need to be said on long-term (20-year) and medium-term (5-year) loans, mainly for the purchase of farm equipment.

Until October 1966, financial requirements of this kind were assessed centrally by the O.N.R.A. on the basis of reports from each *département*. But this system had a number of shortcomings. Estimates were too rough, the farms were not consulted, and deficient organization made credit distribution difficult and ruled out any control.

<sup>1</sup> "L'Evolution du financement de la production agricole", *op. cit.*, p. 22-23.



At the end of 1966 responsibility for distributing Treasury-financed loans for the purchase of equipment by socialist farms passed to the C.A.C.A.M.<sup>1</sup>. At the same time, the system was decentralized to the extent that each self-managing farm now worked out its own requirements and asked for their coverage in an annual credit application accompanied by supporting information, both technical and economic.

The actual disbursement of funds involved a whole series of steps. (1) An overall amount was fixed for each category of goods and equipment; (2) credit applications were examined by the regional credit institutes and by the appropriate technical services of the ministries concerned; (3) applications had to be approved by a departmental commission and by a national one attached to the C.A.C.A.M.; (4) upon request of the C.A.C.A.M. the Treasury made funds available for approved credits; (5) the funds were used for paying purchases under centralized supply contracts and subsequently distributed in accordance with approved requirements; (6) credits were allowed to individual farms to finance purchases not covered under the preceding point.

10. AGRICULTURAL CREDIT AT PRESENT: PLANNED DISTRIBUTION BY THE *Banque Nationale d'Algérie*

As of 1968/1969 all credits to agriculture were centralized at the *Banque Nationale d'Algérie*, which to this end on 1 October 1968 took over the activities of all the institutions previously concerned with such credits. A week earlier, on 24 September, the C.A.C.A.M., the regional and local *caisses*, the *Caisse Centrale des S.A.P.* and the *Caisse des Prêts Agricoles* were put into liquidation, leaving the B.N.A. with the monopoly of all agricultural

<sup>1</sup> *Ibid.*, p. 20.

credit, including investment loans and credits both to the self-managing and the private (modern and traditional) farms. In this position the B.N.A. has a key function in the planning, co-ordination and implementation of the government's agricultural credit policy.

Initially, the paramount need had been to keep agricultural production going at all costs, and this had been both the cause and the justification of the systems previously described. Once that need had become less pressing, centralization at the B.N.A. seemed advisable for two reasons.

The first was to relieve the Treasury of the burden of financing the self-managing farms. As a bank, the B.N.A. had experience in assessing financial needs; it also had the resources to cover them, thanks to its network and to a deposit and loan policy adequately differentiated in terms both of clients and geographical location.

Secondly, it seemed advisable to have an institution which, beyond merely handing out credits, could take part in its client firms' management to the extent of controlling operations and credit use more systematically and effectively than had been possible before. This was a very important aspect, seeing that self-managing farms could clearly not be asked for any real security for loan repayment. It gained further urgency with the introduction of full-scale economic planning and the disappointing results of the first crop year (1968/1969) financed by the B.N.A.

#### *(a) Working credits*

The actual expenditure of self-managing farms in the crop year 1968/1969 differed so widely from the estimates of the Ministry of Agriculture and Land Reform (M.A.R.A.) as to show

TABLE 28

COST STRUCTURE OF SELF-MANAGING FARMS, 1968/69  
AND ESTIMATES 1969/70  
(per cent)

Cost items	Results 1968/69 1	M.A.R.A. estimates 1969/70 2	Divergence 1 $\geq$ 2
Labour costs	58.15	38.00	+ 20.15
Current inputs	15.77	30.70	— 14.93
Traction	12.27	26.60	— 14.33
Miscellaneous expenses	13.81	4.70	+ 9.11

Source: A. Temman, "Le Financement des investissements agricoles", *Algérie & Développement, Dossier Finances*, No. 6, 1971, p. 25.

up a number of deficiencies in the whole system (see Table 28). Clearly, the cost structure and the composition of financial requirements were out of line with the sector's development needs, and as a result the farms concerned either made losses or saw their profits diminish, and credits were used for purposes other than those for which they were granted.

The figures of Table 28 suggest that:

- (i) Labour costs were much too high, particularly in view of the fact that the Ministry's estimates in themselves were already over-generous;
- (ii) far too much went into miscellaneous expenses, which are not directly productive but only indirectly related to the production process;
- (iii) productive expenditure, on current inputs and traction, was much too low.

As a result, agricultural production declined and so did sales proceeds, which in their turn fell far short of the Ministry's

estimates. In particular, gross receipts registered in the books of self-managing farms amounted to only 70.7 per cent of the minimum estimated necessary by the Ministry to cover working costs; what is worse, actual receipts came to only 89.8 per cent of those entered in the books, and to 63.25 of estimated minimum necessary receipts<sup>1</sup>.

With unproductive expenses gaining so much ground to the detriment of productive ones (fertilizers, pesticides, ploughing, etc.), yields dropped, the quality of the crops suffered and hence sales proceeds declined, the more so since the marketing system still was not efficient in spite of the 1967 reforms.

The disappointing results of 1968/1969 made it necessary to overhaul the agricultural credit system once more, with particular reference to farm management controls. The B.N.A. and the public authorities had to adopt a new approach to the problem of credit use and repayment.

As regards the first point, it seemed necessary to go beyond the traditional formal checks of the individual farms' costs against their payments, and to cover also the composition of cost categories in the light of the credits made available separately for each. In this way, control of credit use provides an insight into the production processes of individual farms and one can see better how actual costs incurred diverge from estimates. In other words, an attempt was to be made to ensure not only that credits were used for paying goods and services needed for production, but also that factor combinations on the farms were adequate.

To this end the M.A.R.A. and the B.N.A. from 1969/1970 on worked out indicative farm expenditure schedules, with separate

<sup>1</sup> A. Temman, "Le Financement des investissements agricoles", *Algérie & Développement, Dossier Finances*, No. 6, 1971, p. 25.



provision for standard cost categories (labour, traction, current inputs and miscellaneous expenses), each with a matching credit allowance. As a result, the B.N.A., in collaboration with the Agricultural Accounts and Credit section of the M.A.R.A., was able to launch rationalization schemes for farms whose accounts showed unduly high expenditure of an unproductive kind or for labour. In some cases these schemes worked very well and improved output and management to such good purpose that a number of the socialist farms concerned soon had their operational autonomy restored to them, thus relieving the B.N.A. of part of the huge burden of work involved in these controls.

All those self-managing farms which had fully repaid their B.N.A. credits of previous years were authorized, as of 1 March 1971, to handle their own current expenses without any prior controls<sup>1</sup>.

The second problem, that of loan repayment, was tackled by a series of measures on the side of marketing. In addition to fixing a set of producer prices graded according to the quality and time of crop deliveries, the government set up national marketing boards for various crops. These boards were subject to the same sort of financial controls as national companies. They were financed by the B.N.A. which, by virtue of the 1970 Finance Act, provided them each quarter with the funds required in accordance with an analytical finance plan. In collaboration with the Finance

<sup>1</sup> A. Temman, *op. cit.*, p. 26. The author adds that: "Le contrôle qui est établi à posteriori n'a pour but que de vérifier que les règles les plus élémentaires d'utilisation des dépenses d'exploitation sont respectées et justifiées et de permettre au fur et à mesure des insuffisances de parfaire la formation des responsables en matière de gestion financière. Cette surveillance permet surtout de voir les effets positifs et négatifs de cette opération tant sur le plan psychologique qu'économique. Et c'est de l'examen de ces résultats que dépendra aussi l'extension de cette procédure à d'autres exploitations autogérées".

Ministry and the M.A.R.A., the B.N.A. undertook to keep these marketing boards under continuous control and to put their management on a sound basis, for ultimately it is on their efficiency that the self-managing farms' income largely depends, and with it their capacity to repay debts.

The obligations imposed upon marketing boards include the following:

- (i) They must apply the Finance Law's provisions regarding the presentation of balance sheets and advance estimates;
- (ii) they must show in detail the origin of their financial resources, accounting separately for those attributable to budgetary allocations or to the proceeds of taxes or levies, and those accruing from the sale of agricultural produce and hence earmarked for the repayment of debts to the B.N.A. or for payments to self-managing farms;
- (iii) they must submit to the B.N.A. documentary proof of their marketing operations;
- (iv) they must keep sales proceeds blocked on separate accounts, to be debited only for transfers to farms;
- (v) they must, in any case, keep sales proceeds blocked until the end of the marketing season, as security for B.N.A. credits.

To sum up, then, the B.N.A. concerns itself not solely with the supply of credit, but with the entire cycle of agricultural production, its controls systematically covering the whole of the self-managing farms' activities. Since the B.N.A. in addition takes a hand in the marketing boards' financial management, it has a potential watchdog function with respect to the whole system, from factor combination on the farm to the accrual of sales

proceeds, and hence can, via credit, exercise joint control over the costs and incomes of two closely connected sectors whose prices have a crucial effect both on the domestic and the export market<sup>1</sup>.

In detail, the B.N.A.'s controls, exercised by a number of special sections, comprise the following:

- (i) assessment of the self-managing farms' financial requirements;
- (ii) examination of indicative expenditure plans;
- (iii) control of credit use on a monthly basis, involving verification of the documents proving expenditure, and a check of the amount of credit actually used against the amount expected to be used under the expenditure plan;
- (iv) a monthly check, in collaboration with M.A.R.A. technical services, of the progress of indicative expenditure plans, together with an analysis of results at district and national level;
- (v) marketing controls, involving output estimates and checks both on the volume of deliveries and sales proceeds;
- (vi) examination of marketing proceeds classified per product.

So much for the current financing of the socialist farming sector. It remains to look at the methods by which private farms, both traditional and modern, are provided with working capital.

The sole source of credit for private farms is again the B.N.A., but in this case its intervention is less detailed and far-reaching.

<sup>1</sup> As A. Tenman, (*op. cit.*, p. 26) explains: "...il est de notre devoir, conformément aux directives du Ministère des Finances et aux orientations du Ministère de l'Agriculture et de la Réforme Agraire, non seulement de restreindre les dépenses improductives qui accroîtront le volume d'endettement des exploitations et augmentent le coût de production au risque, d'une part, de ne point les rendre compétitives sur les marchés internationaux et, d'autre part, de contribuer à une hausse de l'indice des prix courants intérieurs, mais également de les supprimer sélectivement".

It would indeed not be feasible to exercise effective control and watch over the management of innumerable small and often primitive farms, many of which do not keep even the most elementary bookkeeping records.

The credits concerned, moreover, are in most cases small and of a mainly "static" nature, in the sense that their repayment depends not so much on control of expenditure as on conversion of the farm economy itself — and this, of course, is a problem that can only be solved in the broader context of land reform.

Finally, and with particular reference to modern private farms, the B.N.A. can obtain real security for its credits and hence is in a better position for recovering them. This constitutes a real incentive for debtors to use the credits rationally, and therefore a complicated control system would be likely to cost more than it is worth. In any case, in dealing with private farms the B.N.A. is free to ration or refuse credit, which it cannot do in the case of self-managing farms.

The B.N.A.'s practices vary according as the private farms concerned are of the modern or the traditional type. In the first case, the bank does not finance the whole of the year's working capital requirements, but only 70 per cent of the estimates for expenditure on labour, traction, current inputs and miscellaneous expenses. In the second case, the B.N.A. acts indirectly through the S.A.P., for the credit activities of which it is responsible since the dissolution of the *Caisse Centrale des S.A.P.* It is now the B.N.A., too, which distributes to them such funds as the Treasury allocates for credits to traditional farmers.

#### *(b) Medium- and long-term credits*

Besides their primary preoccupation with the supply of farm working credits, the authorities also had to see to the investment



TABLE 29

MEDIUM- AND LONG-TERM CREDITS TO SELF-MANAGING FARMS,  
1968 TO 1970

Nature of investment	Number of applications	Estimated finance needs (dinars)	Disbursements as of 31 March 1971	
			dinars	per cent of estimates
Machinery	5,502	418,000,000.00	459,793,196.60	110
Animal husbandry	1,677	38,200,360.30	48,868,570.30	128
Plantations	2,295	85,732,891.55	86,415,551.95	101
Irrigation	3,469	45,064,527.95	51,681,304.00	115
Building	1,614	39,611,164.54	43,450,745.55	110
Other investment	—	39,280,535.00	40,878,839.47	104
Total	14,557	665,889,479.34	731,088,207.87	110

Note: The number of farms applying for credit was 2,198 in 1968, 1,959 in 1969, and 1,936 in 1970.

Source: A. Temman, "Le Financement des investissements agricoles", *Algérie & Développement, Dossier Finances*, No. 6, 1971, p. 27.

needs of self-managing farms. As will be seen from Table 29, more than 731 million dinars were made available by the Treasury in the three-year period 1968-1970 in response to 14,557 credit applications for the purchase of capital goods and other investments.

The source of these credits was the Treasury itself, and the B.N.A. merely acted as an intermediary in their distribution to the applicant farms. From this point of view, therefore, the system was much the same as in previous years.

But in spite of systematic controls by the authorities concerned, actual spending in all categories exceeded advance estimates. This can be explained by a number of reasons, including the system of formulating and analysing credit applications, the procedures of disbursement, the terms and conditions of purchase or import,

organizational shortcomings, and lack of co-ordination and adequate timing in the course of project implementation<sup>1</sup>.

Lately, the system of financing farm investment was overhauled on some points to fit the new principles of financial planning. Since 1970, medium-term credits (up to seven years) have been granted by the B.N.A. from its own resources and can be rediscounted with the Central Bank, while long-term credits (up to 20 years) are financed from funds raised by the Treasury on loans from the economy. Furthermore, new methods of financing planned investment were introduced for agriculture along the same lines as in industry, with the B.N.A. in full charge.

*(c) Financing planned investment in agriculture*

The methods of financing planned investment in agriculture differ according as the farm concerned is self-managing or belongs to the traditional sector.

*(i) Self-managing farms*

Credit applications for investment projects within the period of the four-year plan are formulated individually by each of the farms concerned, with the joint assistance of a B.N.A. representative, one of the accounting co-operatives and the *wilaya* Directorate of Agriculture<sup>2</sup>. These credit applications have to be

<sup>1</sup> As A. Temman (*op. cit.*, p. 27) points out: "Mais le plus grave réside dans l'appréciation de l'ensemble des conditions économiques qu'un équipement engendre sur l'exploitation autogérée, particulièrement sur sa situation financière, en absence d'une juste estimation de la capacité d'endettement ou même de la rentabilité minimum à court ou moyen terme qui doit être logiquement attendue de la mise en place de ces investissements".

<sup>2</sup> The administrative subdivisions of Algeria are departments (*wilaya*), districts (*daira*) and communes.

handed in by 31 March of each year and are then examined at two successive levels.

First, they go to a screening committee at *wilaya* level. This consists of the Director-General of Agriculture, the regional B.N.A. representative, the representative of the regional union of agricultural accounting and management co-operatives, and of the *wilaya* Treasurer. The committee assembles all the individual credit applications and examines the technical, economic and financial aspects of the proposed investment projects, with a view to assessing their expediency as well as the earnings and repayment capacity of the farms concerned. On this basis, the screening committee attaches an opinion to each credit application before passing it on to the B.N.A.'s Credit Committee, which should thus be in a position to decide quickly on the amount and conditions of the loans.

At this second level, credit applications are once more examined. The Credit Committee of the B.N.A. consists of the (1) chairman of the B.N.A., (2) the head of the Research and Planning Division of the Ministry of Agriculture and Land Reform (M.A.R.A.), (3) the head of the same Ministry's Farm Accounts and Finance Division, (4) a representative of the Planning Department, (5) a representative of the Treasury and Credit Directorate in the Ministry of Finance, and (6) a representative of the Central Bank.

The Credit Committee's decisions are, finally, communicated to the applicant farms, the accounting co-operatives and the *wilaya* Director of Agriculture. In some cases, e.g. credits for repair and maintenance of agricultural machinery, the committee may authorize the B.N.A. to apply a shorter procedure.

(ii) Traditional farms

Private traditional farms can get public help in the form of medium- and long-term individual or group loans<sup>1</sup> from the B.N.A. These are financed by Treasury allocations, which, in 1971, amounted to 125 million dinars.

Credit applications are in the first instance submitted to the locally responsible S.A.P., where a district committee examines them and decides how much is to be granted in each case and on what conditions. No loan, however, may actually be arranged without approval by the B.N.A., acting as representative of the Treasury.

Credits to traditional farmers are subject to a good many restrictions as regards amount, duration and use. Depending on the nature of the investment to be financed, there is a fixed maximum amount and duration for each loan. Any one borrower may not be given more than one category of credit in any one year, except in the case that one investment cannot be carried out otherwise than in conjunction with another; even then, the sum of credits granted to any one farm may not exceed 15,000 dinars.

Credits are, furthermore, made available not directly to the applicant farmer, but to the S.A.P. concerned. The farmer's purchases are paid by the S.A.P. to the supplier upon presentation of documents; similarly, expenses for land improvement, plantations or irrigation installations are paid by the S.A.P. to whoever has supplied the services, most often members of the co-operative.

<sup>1</sup> Individual loans may be granted for the purchase of machinery, animal husbandry, land improvement, plantations, irrigation installations (*petites hydrauliques*) and rural crafts. Group loans may, in addition to the above purposes, be destined for co-operative sheep farming and for the construction of rural buildings.



## 11. THE *Caisse Nationale d'Epargne et de Prévoyance* AND THE MOBILIZATION OF HOUSEHOLD SAVINGS

Two distinct phases may be distinguished in the history of independent Algeria's endeavours to mobilize household savings. The dividing date is 6 May 1966, when the *Caisse Nationale d'Epargne et de Prévoyance* (C.N.E.P.) opened its doors for business and the public authorities turned in earnest to the problem of promoting the formation and mobilization of savings in the new state's economy.

In French Algeria, the savings system had, like so much else, followed the French model. It was run jointly by the French *Caisse Nationale d'Epargne* (C.N.E.) and seven ordinary savings banks. The C.N.E. covered the whole territory via the postal network; of the savings banks, none had any branches, and each operated in the limited area of one major town<sup>1</sup>. In both cases, the savings were not directly invested on the spot, but transferred to the *Caisse de Dépôts et Consignations*, which in its turn extended credits to local authorities as well as building loans to low-rent public housing boards (*Offices publics d'habitations à loyer modéré* - H.L.M.) under the auspices of local authorities at the level of communes or departments.

The political and social upheavals after 1962 led to the closure of most the ordinary savings banks, and a large part of depositors lost their money. Only the savings bank of Tlemcen carried on until 1 March 1967, when it was absorbed by the C.N.E.P. and became one of its agencies. The debts of the savings banks and the C.N.E.'s deposit books were part of the disputed claims settled by France and Algeria on 23 December 1966. On this occasion, 261,000 accounts, adding up to 30 million dinars, reverted to the

<sup>1</sup> Algiers, Bône, Philippeville, Oran, Constantine, Tlemcen and Mostaganem.

C.N.E.P. Only then, after conversion of the debts of its predecessors and consolidation of its own organization, was the C.N.E.P. in a position to launch its own policy for the mobilization of household savings. Unhappily, it had to do so at a particularly difficult moment<sup>1</sup>.

The C.N.E.P. had been set up in 1964, by Law No. 64-227 of 10 August 1964. It is a public corporation with its own legal personality and financial autonomy. Its Board of Directors consists of the chairman, who is appointed by the Finance Minister for a three-year term of office, and of five other members representing, respectively, the Ministries of Home Affairs; Finance; Reconstruction; Public Works and Transport; Social Affairs; and Post and Telecommunications.

Implementation of the Board's decisions and current management are the responsibility of the General Manager, who is appointed by government decree upon the proposal of the Finance Minister. The latter, finally, also appoints the auditor.

As the successor of the former *Caisse de Solidarité des Départements et Communes d'Algérie*, the C.N.E.P. engages in three broad classes of operations financed from three different sources, as follows: (a) collection and investment of savings (*Fonds d'épargne*); (b) management of special local authority funds

<sup>1</sup> As Tahar Imalhayène, General Manager of the C.N.E.P., explained in his report to the Milan Savings Conference in September 1971: "... the economic and psychological conditions of the time were most unfavourable since Algeria, which had only recently obtained its independence, acutely presented the characteristics of an underdeveloped country: economic stagnation, practically non-existent home production, unemployment, emigration, a confused economic policy. All these conditions made saving start under the worst possible omens". (Tahar Imalhayène, "The Mobilization of Savings in Algeria", in *The Mobilization of Savings in African Countries, Proceedings of an International Conference held in Milan 20 to 23 September 1971*, Milan, International Savings Banks Institute and Cassa di Risparmio delle Provincie Lombarde, 1972, p. 81).

(*Fonds de garantie et solidarité départemental et communal*); (c) management of certain social insurance and personnel funds on behalf of local authorities and hospitals.

*(a.1) Collection of savings*

The C.N.E.P.'s main concern is to promote and attract small savings. Both activities are very necessary, and gain added urgency from two sets of circumstances.

First of all, the rigid functional specialization which the authorities have introduced into the Algerian credit system led to a situation in which the commercial banks play a very small part in the mobilization of savings, and more especially of small savings. Since the banks are precluded from raising money from the public in the typical form of savings books, and hence have no contact with small savers, they have perforce to deal with the higher income groups as well as family firms, whose monetary savings they take in against fixed-term notes.

Secondly, diversified financial assets are in such short supply that deposits with the C.N.E.P. are in practice the only way of earning interest open to savers whose income just lifts them above the level of subsistence consumption.

The C.N.E.P. has adopted a threefold approach to the problem of mobilizing household savings, namely, maximum territorial coverage through a dense network, simple and convenient technical forms of deposit, and publicity.

The problem of network density has been solved by using Algeria's post offices, of which there are some 900. The advantages of this solution are obvious. It gives the C.N.E.P. countrywide coverage at a cost saving well in excess of the annual "rent" it pays the Post Office for its services. In an effort to improve facilities for depositors, especially in urban centres, the

C.N.E.P. has in addition developed a network of agencies of its own<sup>1</sup>, which work more efficiently and quickly than post offices and offer more privacy.

An intensive educational publicity campaign using a variety of channels is designed to reach all potential savers. Its main object is to reduce hoarding, a practice still widespread in rural areas, and not merely among the poorer or economically less well educated classes.

As regards the technical forms of deposits, these are of the utmost simplicity so as to make them accessible to all categories of depositors. There is only the one single technical form of savings books, though these differ according as deposits are made at a post office or at one of the C.N.E.P. agencies. In either case, the amounts paid in or withdrawn may not be less than 10 dinars, and no interest is paid on books showing a balance of less than 100 dinars and no movements for five years. But these restrictions are negligible, and in practice place no obstacle at all on any depositor's relations with the institute.

The savings books issued by post offices and agencies are not interchangeable, in the sense that the holder of a post office book cannot deal with an agency, and *vice versa*; he can, however, deal with any post office other than that which has issued his book, and similarly the holder of an agency book can deal with another agency. However, withdrawals of more than 750 dinars can be made only at the post office which has issued the savings book concerned.

The interest rate was raised on 1 January 1971 from 2.8 to 3.5 per cent, tax free. This provision was introduced by the

<sup>1</sup> At present, there are eight agencies in Algeria's major cities. One of them was opened in 1967, two in 1969, three in 1970 and two in 1971, and between them they held some 25,000 deposit accounts on 31 May 1971.



1971 Finance Act as part of a package designed to reduce the volume of hoarding and increase the propensity to save of households in line with the targets of the four-year plan.

At that time the propensity to consume, modelled on the expenditure patterns typical of industrial countries, had become much too high in relation to the volume of national production, with adverse effects on prices and the current balance of payments. The government, therefore, prohibited or restricted imports of certain luxury goods and at the same time raised the taxes on non-essential consumer goods. Alongside these forms of forced saving, an effort was made to encourage voluntary saving. To this end, the government instructed the C.N.E.P. to launch a new scheme of "saving for homes" and to introduce foreign-exchange deposit accounts to attract the savings of Algerian emigrants in France. Finally, the economic authorities took steps (in the 1970 Finance Act) to prohibit any form of credit which might serve to increase consumption, including the so-called social credits — a measure which had immediate repercussions on the C.N.E.P.'s lending.

The homes-saving scheme was introduced by decree on 19 February 1971 in substitution for the C.N.E.P. building loans, which, together with mortgage loans, were discontinued pending a structural reform of the building sector. In any case, the first priority at the time was to channel savings to industrial investment.

Technically, the new scheme is much simpler and more flexible than its counterparts in many other countries. So far as the depositor is concerned, there is no separate account from that documented by his savings book, on which he is completely free to pay in and withdraw.

Loans under the scheme are given exclusively for new construction of owner-occupied homes built by individuals or

co-operatives. They are not dependent on any pre-established saving plan, but only on two conditions: (a) the applicant must have had a savings deposit account for a least 36 months, except that if the account was opened before 1 July 1971 credit applications are admissible as of 1 January 1974; (b) the balance of accrued interest must be in excess of 350 dinars.

The amount of accrued interest is the key figure for the calculation of the amount of any loan. This is based on the capital sum which, if paid in initially in a lump sum, would have yielded the interest recorded in the savings book by the date of the loan application. The actual amount of the loan is calculated by multiplying this capital sum by a fixed coefficient, varying according to the date when the account was opened. If it was opened less than 60 months before the loan application, the coefficient is 1.5; otherwise it is 2. In both cases, however, there is an upper limit of 100,000 dinars for any one loan. The duration of loans ranges from five to twenty years, and the interest rate payable is 5 or 6 per cent, according as the loan is for less or for more than ten years.

Loans of up to 10,000 dinars are paid out in one lump sum, while larger loans are paid out in three instalments upon presentation of documents regarding progress of work. An initial 40 per cent is paid out when work begins, subject to completion of the formalities of mortgage registration; another 40 per cent is paid out on completion of the foundations, structural walls and roof, and the remaining 20 per cent when the work is finished, subject to a surveyor's report on behalf of the C.N.E.P. and presentation of a fire insurance policy.

Loans over 10,000 dinars have to be secured by a first mortgage, and in all cases both a life assurance and a fire insurance

policy are required, endorsed to the C.N.E.P. In certain cases, personal guarantees are wanted as well.

The other recent innovation, as mentioned before, is the introduction by the C.N.E.P. of accounts for the dinar equivalent of the foreign-exchange remittances by emigrants. The chief conditions attaching to these accounts may be summarized as follows. (a) Remittances must be in convertible currencies; (b) the first payment must amount to not less than the foreign-exchange equivalent of 50 dinars; (c) no pass book is issued, but the account holder merely receives credit and debit slips; (d) withdrawals may not be made for a beneficiary abroad; (e) withdrawals are made by the account holder by cheques payable to himself, if he happens to be in Algeria, or to the order of a third party; (f) deposits bear interest at 4.5 per cent; (g) deposits enjoy all the advantages of the home-savings scheme described above, except for a higher minimum of at least 450 dinars of accrued interest being required for obtaining a loan.

Figures for the growth of C.N.E.P. savings deposits are given in Table 30. The steady increase in the number of accounts and the volume of deposits testifies to the success of the C.N.E.P.'s drive in only five years of activity, and despite the structural obstacles to the formation and mobilization of household savings which are inherent in any underdeveloped economy. There are still only 56 savings accounts for every 1,000 inhabitants, and average savings per Algerian citizen amount to no more than 48 dinars. The reason, of course, is the typical combination of low incomes, unemployment, demographic factors and the structural and functional deficiencies of the savings bank itself<sup>1</sup>.

<sup>1</sup> To quote Tahar Imalhayène once more (*op. cit.*, p. 88): "... our handicaps, both temporary and lasting, are manifold and of various kinds: a sparsely

TABLE 30

GROWTH OF C.N.E.P. SAVINGS DEPOSITS, 1966 TO 1970

Year	Year's increase in		End-year total of	
	No. of accounts	amount of deposits (dinars)	No. of accounts	amount of deposits (dinars)
1966	24,107	39,819,360.00	24,107	39,819,360.00
1967	28,432	49,158,375.39	52,539	88,977,735.39
1968	485,351	96,664,371.01	537,890	185,642,106.40
1969	52,774	98,490,812.16	590,664	284,132,918.50
1970 (June)	31,440	82,377,958.50	622,104	366,510,877.06

An interesting point is the composition of savers by social and economic groups, which, on latest count, was as follows (per cent):

Officials and employees	32.05
Wage earners	17.97
Young people (under 21)	11.11
Rentiers and pensioners	7.38
Members of the armed forces	6.90
Traders, businessmen, professionals	3.31
Farmers, craftsmen	3.12
Companies	0.08
Miscellaneous	18.08

Officials and wage earners form much the largest group of C.N.E.P. depositors, and generate most monetary savings. But the C.N.E.P. feels that it should be possible to increase the inflow

populated country, a low standard of living, an extremely young population (56% under 19) with a high percentage of women, partial unemployment, a very new Savings Bank, insufficiently tested and sometimes inadequate service, human and material resources limited as to quantity and quality, and still further deficiencies which cause clients to be few or their numbers to increase only slowly".



of deposits from other population groups, especially from such people as traders, businessmen and professionals, who have a high savings potential<sup>1</sup>. To this end, it is trying both to step up its publicity campaign and to improve the quality and efficiency of its services. It hopes, for instance, to acquire new clients thanks to an improvement and extension of its collecting network and to data processing by computer. The saving-for-homes scheme, moreover, for all that it is too new to pass judgment on its results, should prove effective in mobilizing the savings of people in the middle-income group through deposits at the C.N.E.P.<sup>2</sup>.

But the C.N.E.P. also tries to reach the poorer classes and more especially the rural folk, who are more distrustful of deposits and more given to hoarding. To do this, it relies mostly on an intensive, nation-wide educational publicity campaign.

#### *(a.2) Investment of savings*

The C.N.E.P. spreads its loan assets widely through credits to individuals and local authorities, and also provides venture capital for a few companies and invests in real property. It has, moreover, an official monopoly of loans for low-rent housing

<sup>1</sup> Tahar Imalhayène, *op. cit.*, p. 87.

<sup>2</sup> Although the middle and upper income groups are potential savers, there are two obstacles to the actual formation of savings on their part. One is the demonstration effect of consumption, and the other the lack of diversified interest-bearing financial assets. The first derives from social factors and from an underestimate of the value of saving; to overcome it requires a whole set of measures aiming, essentially, at raising the propensity to save — allowing, of course, for the fact that the income groups concerned have passed beyond the stage of hoarding. Incentives may prove useful, and so may collateral services offered to depositors, especially in the context of a general policy of stressing the individual and collective importance of saving. To overcome the second obstacle in a country with only an elementary capital market requires a range of deposit facilities diversified to meet the preferences and needs of various categories of depositors. The homes-saving scheme can be regarded as a first step in this direction.

construction, for which it draws resources from deposits and from special Treasury allocations.

(i) *Loans to individuals* — now suspended since the 1970 Finance Act — used to be of three kinds: building loans, mortgage loans, and so-called social loans.

Loans for building purposes, now replaced by those granted under the saving-for-homes scheme, were reserved to C.N.E.P. depositors who were land owners. Their maximum amount was 80,000 dinars and their maximum duration 25 years, and interest ranged from 4.75 per cent (for 5-year loans) to 5.75 per cent (for 25-year ones). The loans were secured by mortgages, and subject to a life and fire insurance policy being taken out and endorsed to the C.N.E.P.

Mortgage loans had a uniform duration of ten years, and bore interest at 7 per cent.

Social loans were granted to officials and employees of the government, local authorities and other public agencies, in amounts not exceeding three times their monthly pay. These loans bore interest at 6 per cent, and were repayable in twelve monthly instalments.

(ii) *Loans to local authorities* at municipal and departmental level are granted by the C.N.E.P., their sole banker, for current budget expenditure and for the construction of social overhead capital. These loans are subject to authorization by the Ministry of Home Affairs; their duration is at least five and at most twenty years, and the rate of interest is 5 per cent.

Loans to local authorities far outstrip those to individuals. Town councils alone received in 1969 some 500 long-term loans for a total amount of approximately 85 million dinars.

(iii) *Venture capital* has been made available by the C.N.E.P. through taking a stake in the capital of the following companies:

*Société de promotion immobilière* (40 per cent), *Société Algérienne de réalisation et de promotion industrielle* (20 per cent), *Société Algérienne de réalisation touristique* (20 per cent), and *Coopérative des jeunes bâtisseurs* (33 per cent).

(iv) *Property investment* by the C.N.E.P. takes two forms. First, the bank has acquired, in addition to the buildings housing its own business premises, a number of other properties, mostly building sites in Algiers and, as befits its charity and social insurance functions, two large hospital complexes. Secondly, the C.N.E.P. not only lends for building, but builds on its own account. It has completed housing projects near Algiers at a cost of some 10 million dinars, but further construction was discontinued when the new four-year plan came into force, because homes may now be built only subject to prior approval of the projects by the planning authorities and subject to scheduling in the building programme.

(v) *Loans for planned low-rent housing* are a monopoly of the C.N.E.P. since 4 August 1970. The housing construction agencies are responsible to local authorities at municipal and departmental level, and in the past used to get their funds directly and solely from the Treasury. Since 1971 these credits are handled by the C.N.E.P. and, in deference to the new planning principles, are financed by deposits from the public as well as by special Treasury allocations.

Under the new system no project may be started before it has been included in the Planning Department's investment schedule, before a finance plan has been prepared and approved by the Technical Committee on Housing and before the necessary credit agreements have been concluded with the C.N.E.P.

The Technical Committee on Housing was set up only recently. It is attached to the C.N.E.P. and chaired by its General Manager; its five other members are the head of the Treasury and Credit

Division of the Finance Ministry, the head of the Town Planning and Housing Office, a representative of the Ministry of Home Affairs, the deputy head of the Infrastructures and Building Division of the Planning Department, and the deputy head of the Financial Affairs Section of the C.N.E.P.

The Committee draws up the finance plans for planned housing, assesses the repayments capacity of the building companies and determines the duration of loans as well as the proportion in which they are to be financed from own resources and from Treasury funds. The Committee's decisions are communicated by the C.N.E.P. to all the organizations concerned, including, in addition to the building companies, also the Public Works and Construction Directorate of the department, the chief of the department (*Wali*) and its Treasurer, as well as the Ministry of Public Works and Construction.

After the finance plan comes the conclusion of credit agreements. These are of two kinds, general and particular. The general agreement deals with the annual amount of credit to be granted to the building company and with the proportions of credit to be covered by C.N.E.P. deposits (twenty-year duration and interest at 4.75 per cent) and by Treasury funds (thirty-year duration at 1 per cent). The particular credit agreement, on the other hand, deals with the distribution of any one loan among different operations and with its terms and conditions (duration, rate of interest, operational cost, method of repayment).

The loans are made available via the departmental treasuries, to which the C.N.E.P. pays every six months such funds as are needed for settling bills. In their turn, these treasuries have to submit to the C.N.E.P. monthly statements of expenditure, with supporting documents. The C.N.E.P. too, has to prepare monthly statements on credit use for the Finance Ministry and the Planning



Department. These statements must contain full details classified by borrowing companies, projects and nature of loans. In addition, the C.N.E.P. has to prepare quarterly analytical reports on progress of work and credit use for each project.

These C.N.E.P. housing loans are state-guaranteed, which means that if a debtor fails to pay a reimbursement instalment, the bank can ask the Treasury to pay it instead.

*(b) Management of special local authority funds*

In addition to its main function of collecting and investing savings, the C.N.E.P., as the successor of the *Caisse de Solidarité des Départements of Communes d'Algérie*, is in charge of the management of several local authority and other funds. These include two categories of special departmental and municipal funds, the guarantee funds and the solidarity funds, both maintained by fiscal revenues.

The former must, under the Municipal Code, fully cover the yield of local direct taxes to the extent of the proportion annually fixed by the ministries concerned. The solidarity funds, on the other hand, are meant to cater to a variety of local authority needs and hence are subdivided into many sections according to the destination and the origin of the resources concerned<sup>1</sup>.

*(c) Management of social funds for local authorities and hospitals*

The funds concerned are of three kinds: a mutual provident fund, an equalization fund for family allowances and an equalization fund for welfare benefits in cash.

<sup>1</sup> These funds are used for equalization payments, extraordinary grants, investment grants, road-building subsidies, distribution of a share of the single tax on value added, aid to old people, distribution of a share of the fiscal revenue from petroleum to the benefit of southern communities, and personnel training schemes for local authority staff.

The first is in effect a social insurance fund, kept up by contributions from local authorities and hospitals as employers, and from their employees, in both cases graded in proportion to wages or salaries. Staff are covered for specified personal or family risks like illness, disablement, maternity, etc.

The second fund evens out family allowances paid out in each year by different local communities, and also pays out of its own resources for some share of certain social expenditures.

The third fund, finally, pays out to local authority and hospital staff such benefits as they may be entitled to on the occurrence of specified risks (e.g. prolonged illness), subject to subsequent reimbursement by the employers, on an equalized basis.

## 12. CONCLUSIONS

We have retraced the steps by which independent Algeria since 1962 gradually acquired effective powers of control over its monetary and credit affairs. In so doing, the government followed two distinct lines. The first led from the creation of an independent central bank and the issue of a national currency separate from the French franc, to the adoption of exchange control vis-à-vis France and the resulting withdrawal of Algeria from the franc zone.

The second was the "Algerianization" of the banking system by means of the establishment of public Algerian banks and the progressive incorporation into them of the branches of foreign banks operating in Algeria.

Contrary to what happened in other developing countries, the nationalization of the banking system was part and parcel of a much broader process of establishing state control over production throughout the country, which now has a system of far-reaching state intervention in the economy.

But nationalization of the banking system does not, so far, seem to have solved the problem of financing economic development. Among other things this has, no doubt, much to do with the banking system's efficiency, which in its turn does not necessarily depend on who owns the banks, that is, whether they are in public or in private ownership<sup>1</sup>. After all its reorganization, the Algerian banking system is still rather unbalanced. Structurally, it suffers from undue concentration of the network in the country's northern parts, to the neglect of others, and it has some functional deficiencies as well.

With reference to the latter, it must be pointed out that in practice the banking system fails to live up to one of the main conceptions behind its highly specialized organization. It is not, as it was meant to be, non-competitive in the function of administering that central, collective pool of national financial resources of which the Finance Minister spoke in December 1966. In spite of the fact that the national banks are all publicly owned and in spite of the context in which they all work, rivalry and power conflicts have arisen among them, especially in the matter of attracting the deposits of the major national companies and of gaining the right to engage in certain operations. A case in point is the monopoly of foreign financial services sought by both the B.N.A. and the B.E.A.<sup>2</sup>.

Since 1970 banking has become part of the system of financial planning with its prevalent trend of decentralization, meaning that a number of different public agencies are responsible for investment decisions and the supply of investment funds. In this system, the

<sup>1</sup> See, on this point, G. Dell'Amore, *La struttura delle aziende di credito*, Milan, Giuffrè, 1967, p. 55 ff.

<sup>2</sup> See P. Pascallon, "Le Système monétaire et bancaire algérien", *op cit.*, p. 876 ff.

banks have the function of guiding financial flows along planned lines, and their activities are governed by a host of legislative provisions and rules. The "banker's art" has turned into a control function; banks supervise the use of credits granted to public enterprises without any bank having had more than a marginal say in the matter. Consequently, the Algerian banking system's function is essentially "passive" in the sense that it merely covers the financial requirements of public enterprises; it does not, in practice, exercise any "active" function of impulse and promotion with respect to productive ventures. But then, there is of course no place for such an active function in Algeria's chosen development strategy based on coercive planning.

Admittedly, public enterprise itself can exercise an impulse function when used by the government to speed up and promote economic development. This has been proved in decades of theoretical analysis and practical experience, and if it is true in advanced economies, it is even more so in developing ones, where for many reasons private entrepreneurs might well fail to effect such investment and launch such projects as are of primary importance for development.

From this point of view, planned state intervention in the economy is not only warranted, but indeed necessary. It follows that bank lending and bank activities must be co-ordinated and aligned with the government's choices, and this means financial planning to guide the banks' investments and adapt them to the priority scales of successive economic plans.

But granted the expediency of planned state intervention in the economy, it still remains necessary to maintain a certain equilibrium between public and private enterprise with a view to creating the institutional conditions which allow the banking system to exercise the "active" function of promoting productive



ventures. In Algeria, the scales have tipped far beyond this equilibrium point.

Leaving aside the problem of foreign investment, where there may be political implications, this transgression of the equilibrium point deprives the country of an important instrument of economic development. Theory and practical experience agree in assigning primary importance to small and medium-sized firms making use of local entrepreneurial talent. Through product diversification and geographical spread, small-scale enterprise gives effect to the impulse deriving from large-scale investment, and thus contributes actively to the growth of national income, employment and savings<sup>1</sup>.

<sup>1</sup> As G. Dell'Amore points out (*Il risparmio in una economia dinamica*, Milan, Giuffrè, 1969, p. 18): "Small- and medium-sized enterprises increasingly attract the attention of government, for experience has shown that wide fragmentation in production can usefully coexist with the creation of huge concerns, and indeed helps to avert their political and social dangers no less than economic ones. From this last point of view it is an established fact that small- and medium-sized firms of all kinds constitute a favourable factor for a widespread propensity to save, and a highly flexible and adaptable one at that. These firms are also a rich nursery of entrepreneurs, and help to ripen the innovating capacity of the better trained businessmen".

Other authors, too, have stressed the function of small- and medium-sized enterprise in developing countries. For instance, E. Staley and R. Morse (*Modern Small Industry for Developing Countries*, New York and London, McGraw-Hill, 1965, p. 165) have this to say: "Small factories can contribute to economic growth, first, through the introduction of many products in which such factories are prevalent even in modern economies, but which are new to most non-industrialized societies. Small factories in these industries are profitable and socially beneficial even though they do not exhibit great individual growth. Many products of such industries are in great demand in developing countries. Their introduction, if suitable in the country's particular circumstances, will promote the diversification of manufacturers and the emergence of healthy new enterprises that are vital elements in economic transformation". The same authors discuss in depth the contribution of small firms to economic development and the manner of their participation in it. On the connected financial problems, see R. W. Davenport, *Financing the Small Manufacturer in Developing Countries*, New York, McGraw-Hill, 1967.

But small-scale enterprise does not spring up so easily, especially in developing countries, and this is just why government should promote its emergence. Credit, of course, is only one of several means of doing so, but nevertheless a structurally and functionally efficient banking system can certainly play an important part in solving the problem. Its part, indeed, is recognized as necessary by the economic authorities both of industrial and of developing countries. But the banking system can make its contribution only if the individual banks have a measure of independence, subject, of course, to some public control.

So far, the Algerian banking system does not seem to have worked along these lines of providing an autonomous impulse to economic development and especially local enterprise. But it is not to be excluded that the near future may bring a change in that direction. The Finance Minister, it will be recalled, has foreshadowed "fundamental decisions" on the structure of the credit system before the end of the period covered by the four-year plan 1970-1973. It remains to be seen whether these decisions will make room for a liberalization of banking activity, or whether instead they will lead to the creation of a single state bank on the model of the Soviet *Gosbank*, as was advocated some time ago in certain leading economic circles.

## ABBREVIATIONS

- A.L.N. *Armée de la Libération Nationale.*
- AS.COOP. *Association de coopération.*
- B.A. *Banque de l'Algérie.*
- B.C.A. *Banque Centrale d'Algérie.*
- B.C.E.A.E.C. *Banque Centrale des Etats de l'Afrique Equatoriale et du Cameroun.*
- B.C.E.A.O. *Banque Centrale des Etats de l'Afrique de l'Ouest.*
- B.E.A. *Banque Extérieure d'Algérie.*
- B.F.C.E. *Banque Française du Commerce Extérieur.*
- B.I.A.M. *Banque Industrielle pour l'Algérie et la Méditerranée.*
- B.I.A.N. *Banque Industrielle de l'Afrique du Nord.*
- B.N.A. *Banque Nationale d'Algérie.*
- B.N.C.I. *Banque Nationale pour le Commerce et l'Industrie.*
- B.N.C.I.A. *Banque Nationale pour le Commerce et l'Industrie (Afrique).*
- B.N.P. *Banque Nationale de Paris.*
- C.A.A.R. *Caisse Algérienne d'Assurance et de Réassurance.*
- C.A.C.A.M. *Caisse Algérienne de Crédit Agricole Mutuel.*
- C.A.C.B. *Compagnie Algérienne de Crédit et de Banque.*
- C.A.D. *Caisse Algérienne de Développement.*
- C.C. des S.A.P. *Caisse Centrale des Sociétés Agricoles de Prévoyance.*
- C.C.M.A. *Caisse de Crédit Municipal d'Alger.*
- C.C.R.A. *Centre Coopératif de la Réforme Agraire.*
- C.C.R.M.A. *Caisse Centrale de Réassurance des Mutuelles Agricoles.*
- C.D.R.A. *Commissariat Départemental de la Réforme Agraire.*
- C.E.D.A. *Caisse d'Equipement pour le Développement de l'Algérie.*
- C.F.A. franc *Franc de la Communauté Financière Africaine.*
- C.F.A.T. *Crédit Foncier d'Algérie et de Tunisie.*
- C.I.C. *Crédit Industriel et Commercial.*

- C.N.E. *Caisse Nationale d'Epargne.*
- C.N.E.P. *Caisse Nationale d'Epargne et de Prévoyance.*
- C.N.E.P. *Comptoir National d'Escompte de Paris.*
- C.N.I. *Commission Nationale des Investissements.*
- C.O.R.A. *Coopérative de la Réforme Agraire pour l'Exportation.*
- C.O.R.E. *Coopérative d'écoulement pour le marché intérieur.*
- C.P.A. *Crédit Populaire d'Algérie.*
- C.T.I.B. *Comité Technique des Institutions Bancaires.*
- C.T.I.B.N. *Comité Technique des Institutions Bancaires Nationales.*
- D.D.A. *Direction Départementale de l'Agriculture.*
- D.S.A. *Direction des Services Agricoles.*
- EEC *European Economic Community.*
- F.L.N. *Front de la Libération Nationale.*
- GATT *General Agreement on Tariffs and Trade.*
- GDP *Gross Domestic Product.*
- H.L.M. *Habitations à Loyer Modéré.*
- IBRD *International Bank for Reconstruction and Development.*
- IDA *International Development Association.*
- IMF *International Monetary Fund.*
- M.A.R.A. *Ministère de l'Agriculture et de la Réforme Agraire.*
- O.A.I.C. *Office Algérien Interprofessionnel des Céréales.*
- O.C.I. *Organisme de Coopération Industrielle.*
- O.F.L.A. *Office des Fruits et Légumes d'Algérie.*
- O.N.A.B. *Office National des Aliments du Bétail.*
- O.NA.CO. *Office National de Commercialisation.*
- O.NA.LAIT *Office National du Lait.*
- O.N.ALFA *Office National de l'Alfa.*
- O.NA.P.O. *Office National des Produits Oléicoles.*
- O.N.C.V. *Office National de Commercialisation du Vin.*
- O.N.R.A. *Office National de la Réforme Agraire.*
- OPEC *Organization of Petroleum Exporting Countries.*
- P.T.T. *Postes, Télégraphes et Téléphones.*



- S.A.A. *Société Algérienne d'Assurance.*  
S.A.P. *Société Agricole de Prévoyance.*  
S.I.P. *Société Indigène de Prévoyance.*  
S.N.CO.TE.C. *Société Nationale de Commercialisation des Textiles et des Cuirs.*  
S.N.N.G.A. *Société Nationale des Nouvelles Galeries Algériennes.*  
S.N.T.M.G. *Société Nationale de Transit et des Magasins Généraux.*  
SO.NA.CO.B. *Société Nationale de Commercialisation des Bois et Dérivés.*  
SO.NA.R.E.M. *Société Nationale de Recherche et d'Exploitation Minière.*  
SO.NA.TRA.C.H. *Société Nationale pour la recherche, la production, le transport, la transformation et la commercialisation des hydrocarbures.*  
SO.PE.F.AL. *Société Pétrolière Française en Algérie.*  
U.S. *United States of America.*



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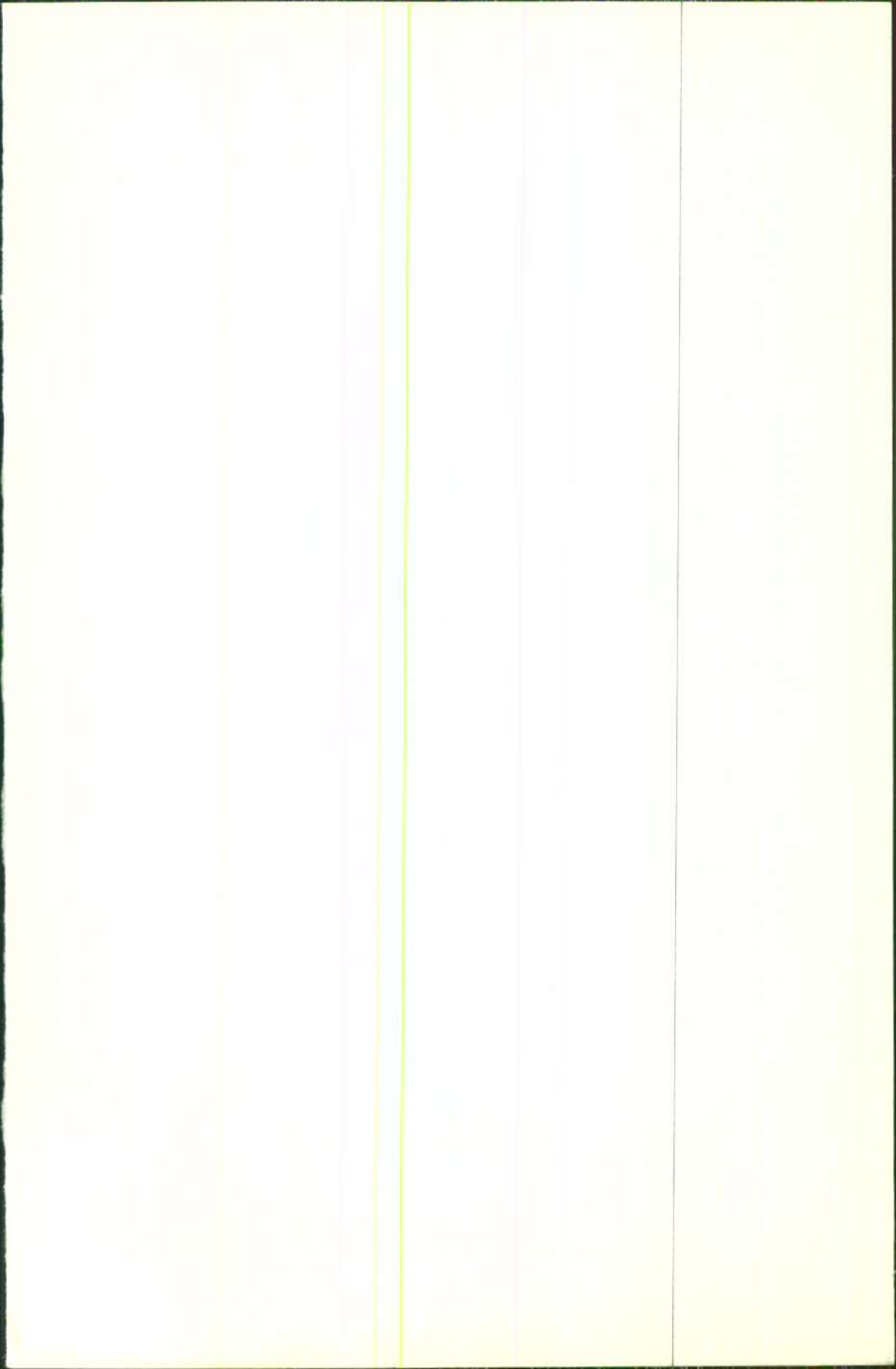
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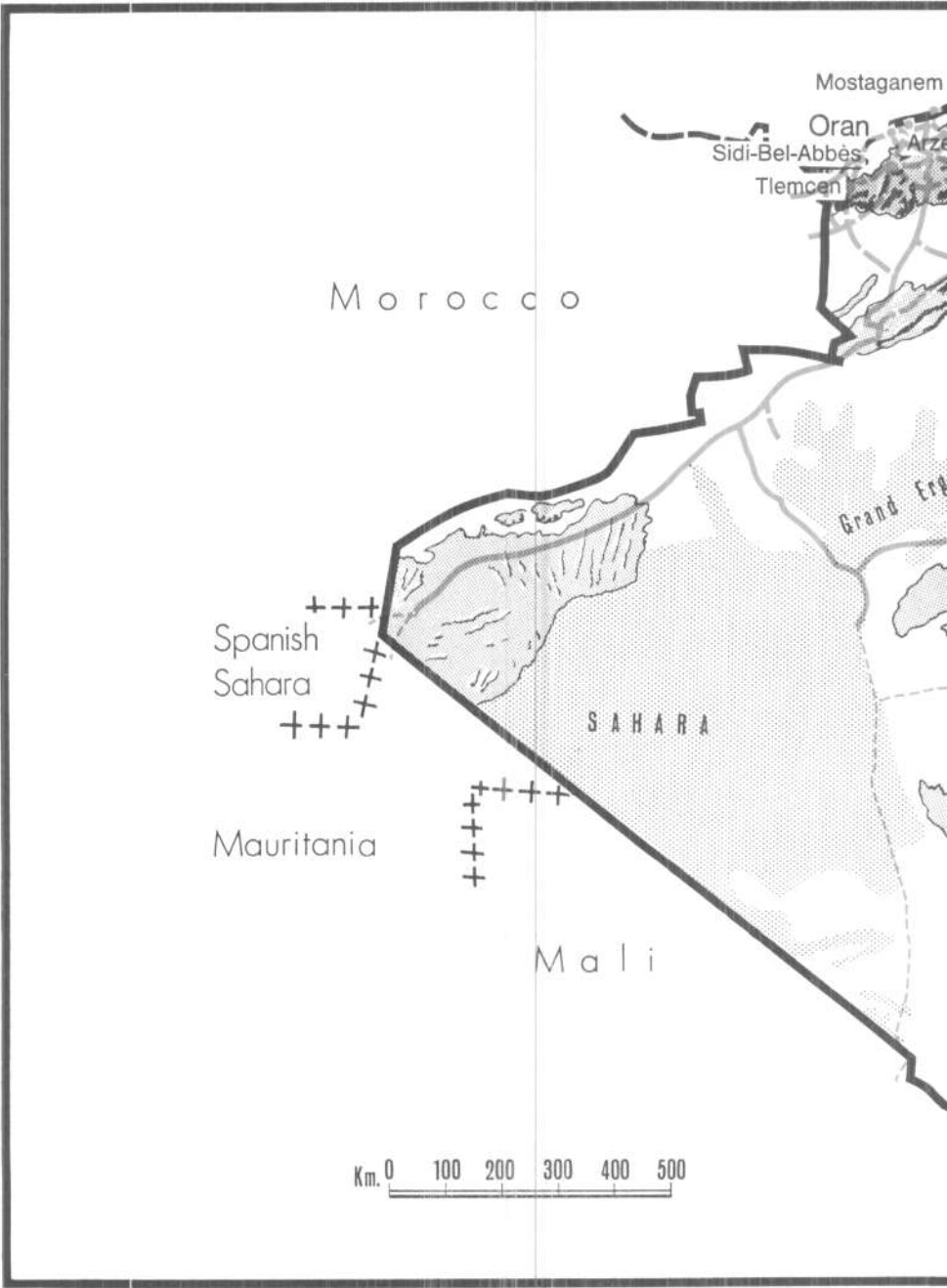
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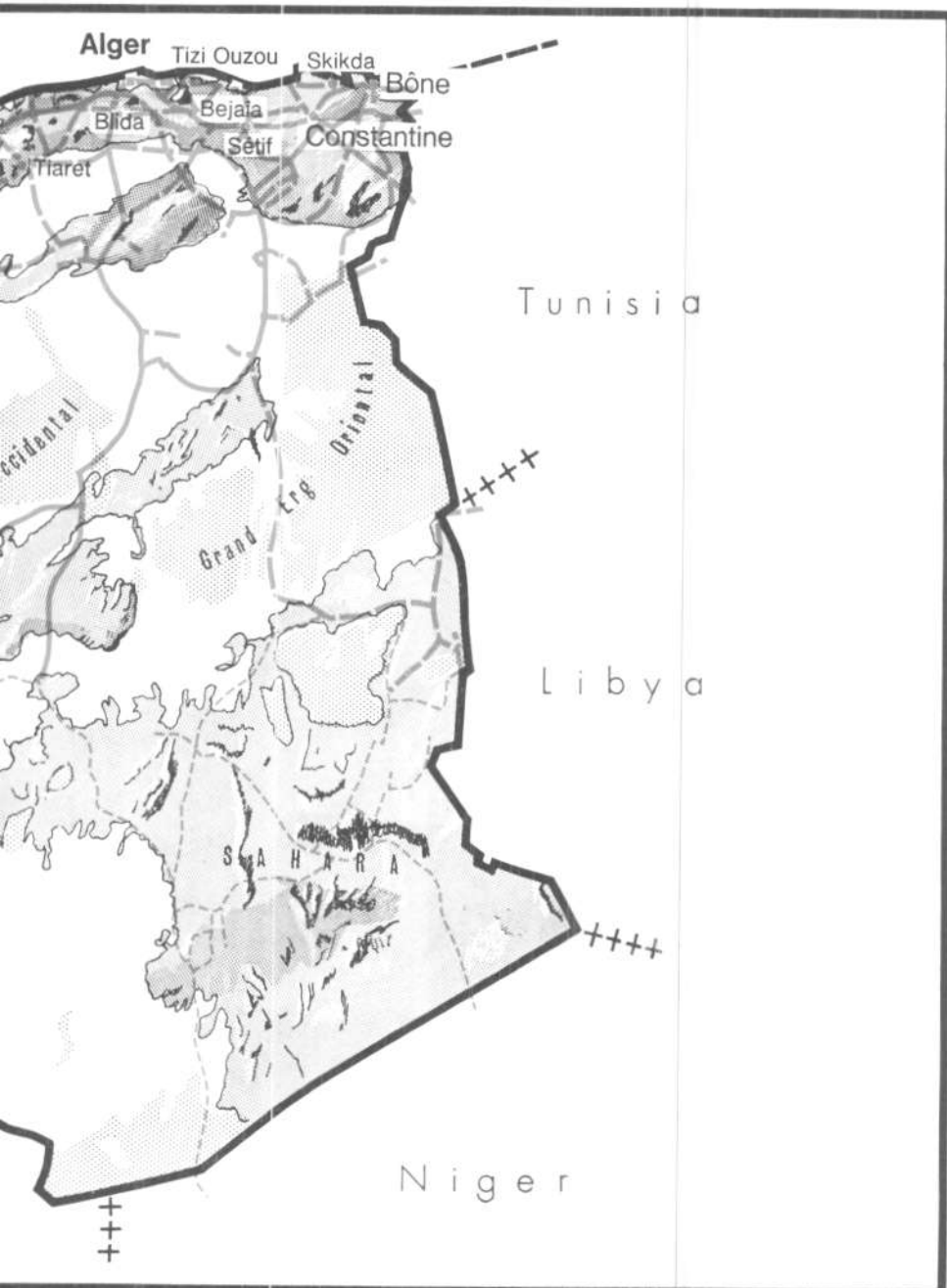


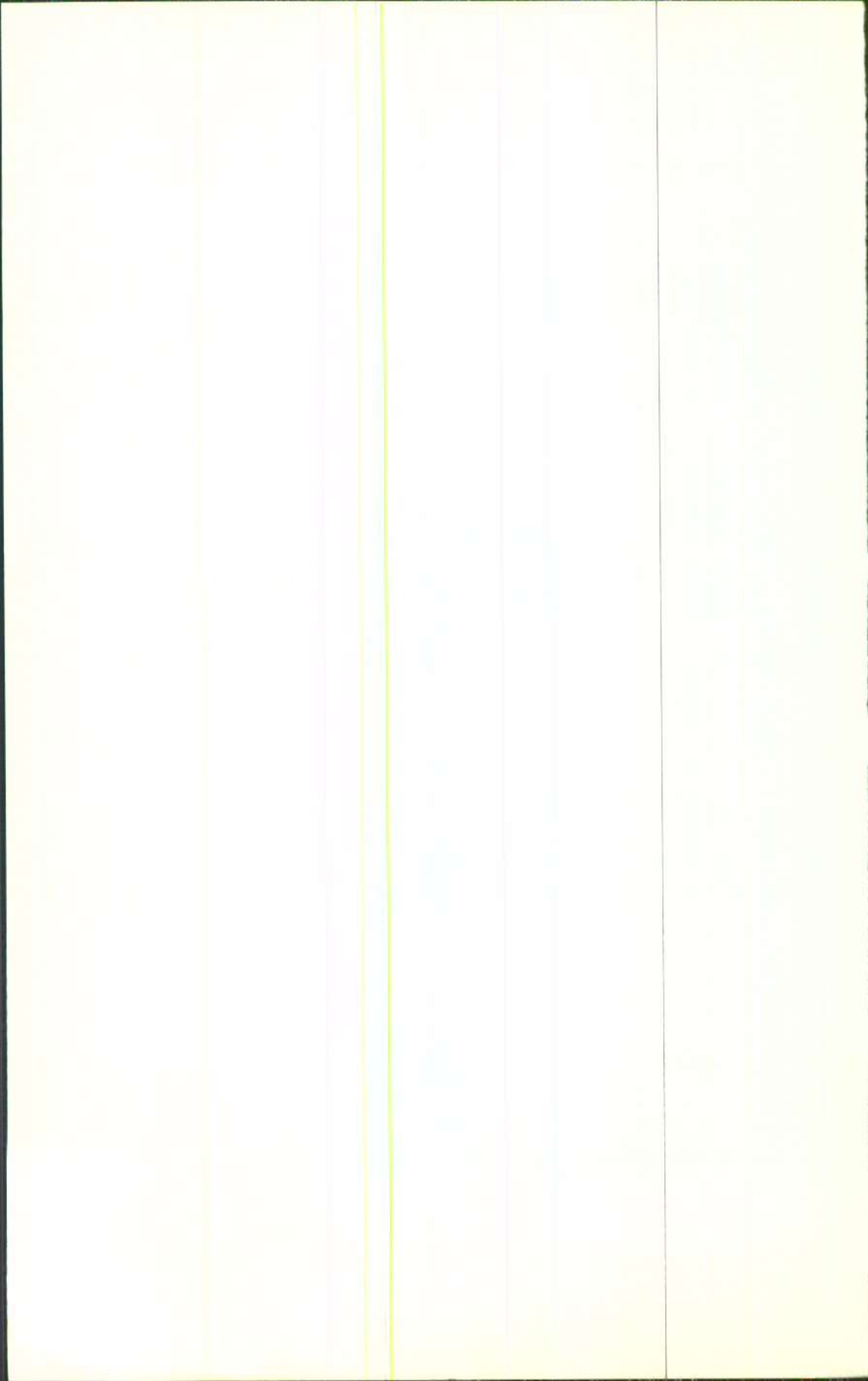


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