Final Report

Microfinance in Algeria
Opportunities and Challenges

June 2006

Joint CGAP and AFD Mission
under the auspices of the Ministry of Finance
Deputy Minister for Financial Reform
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I. Summary

**Algeria has the means to implement ambitious economic and social policies.** Excellent macroeconomic indicators (growth, inflation, fiscal balance, government debt, unemployment rate, etc.) mean that the Algerian government has the means to undertake massive efforts to reduce inequalities and satisfy the needs of younger generations. It has undertaken major sustainable development work, including two economic recovery plans (2001–2004 and 2005–2009) featuring government measures to support new businesses.

**A Rapidly Changing Financial Sector** The financial sector is still primarily government owned. There is one bank branch or post office for every 7,250 inhabitants. Algérie Poste has a network of 3,271 post offices, giving it unique national coverage in the MENA zone, but this coverage still needs to be improved to facilitate the development of microfinance. The consumer credit market is starting to emerge, but financing for very small enterprises is virtually nonexistent.

The financial sector is modernizing very rapidly at the initiative of the Deputy Minister for Financial Reform. There have been a series of legal, financial, and technological reforms in the last three years. The most recent reforms were the introduction of a real-time gross settlement system and a retail payment clearing system, which will greatly facilitate interbank operations and the development of microfinance.

**Genuine Opportunities for Developing Microfinance** The current economic and political climate in Algeria is favorable for extending access to retail banking services and developing the financial system. A market survey financed by the IFC was conducted in the spring of 2006 to ascertain the market dynamics and the market potential.

**Banking legislation does not raise any obstacles, but the regulatory environment needs improving.** Order 03-11 on Currency and Credit (OMC 03-11) does not raise any major obstacles to the development of inclusive financial systems, particularly with regard to setting up specialized finance companies to provide credit to very small enterprises.

However, reforms do seem necessary to improve regulation, particularly with regard to the lending process and anti-money laundering standards.

**Five Possible Ways to Develop Microfinance.** Microfinance could be developed fairly rapidly by taking different, but complementary, approaches, including the creation of one or more finance companies that will build up their own networks of branches or forge a partnership with Algérie Poste to manage customer services.

In the medium term, a bank that specializes in this type of customer base could be set up to provide all types of financial services. Major leverage could be achieved by (i) setting up a network of banking transaction intermediaries and/or (ii) using cell phones. Either solution would require some regulatory changes to be made very soon.

Finally, the cooperative approach must not be overlooked, since it suits the social and cultural climate, especially in rural areas.

**The Algerian government has a critical role to play in improving the regulatory environment and promoting these new measures.** This role includes building up the

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1 The CGAP-AFD mission was part of the G8 BMENA initiative for the development of microfinance in the Arab world. The mission was carried out by Xavier Reille, Tim Lyman, (CGAP), Anne Clerc (AFD), Habbib Attia, Hocine Benissad, and Laurent Lheriau (CGAP consultants). The mission visited Algeria from February 10 to 18, 2006.
technological infrastructure required for microfinance and calls for continuing the work undertaken over the last several years on behalf of Algérie Poste and the modernization of technological infrastructure in the financial sector (bank card system, retail payment system, etc.)

Government measures to support new businesses (ANSEJ, ANGEM and CNAC) also need to be improved and coordinated. They are important for promoting entrepreneurship in Algeria and opening the way for microfinance.

*International investors are also interested in supporting the process.* Multilateral and bilateral donors with experience in developing microfinance are very interested in creating new institutions specializing in financing for very small enterprises (IFC, AFD, BEI, KfW) and capacity building for existing institutions (EU, IFAD).

**II. Changes and Reform in Algeria’s Financial Sector**

**II.1. A Rapidly Developing Country Facing Social Challenges**

Algeria has a population of 33.2 million,\(^2\) concentrated mainly in the North of the country, where 96 percent of the population lives on only 17 percent of the country’s territory, leaving the Sahara virtually uninhabited. Population density in the north is 78.7 inhabitants per square kilometer,\(^3\) with major concentrations in a few big cities, including the capital, Algiers.\(^4\) Per capita GDP stood at approximately USD 3,300 in 2005, with the oil industry, which drives the whole economy, accounting for a large share.

The government enjoys fiscal stability and even a fiscal surplus in the short and medium term owing to oil revenues.\(^5\) This gives it the means to keep taxes at a medium level, invest in modernizing government owned banks (and Algérie Poste), finance government support for new businesses (ADS-ANGEM, ANSEJ and CNAC schemes), and implement economic recovery plans.

The pick up in growth in recent years has brought unemployment down by more than 25 percent to a rate of 15 percent of the labor force, with the target of lowering the rate to under 10 percent by 2010. The emphasis has been on finding jobs for young people, who are hardest hit by unemployment. In early 2006, the government launched an ambitious program to build an average of 100 new business and craft industry premises in each municipality.

This progress has been enhanced by institutional stabilization following the reelection of President Bouteflika in 2004, and continuation and intensification of government economic policies, including modernization of the public financial sector and promotion of the private financial sector.

**II.2. An Underdeveloped but Rapidly Changing Financial Sector**

Algeria’s financial sector is incapable of making an effective contribution to financing growth and meeting the needs of economic agents.

\(^2\) **Source:** National Statistics Office (ONS), statistics at January 1, 2006. The population is growing by between 500,000 and 550,000 people per year. At this pace, Algeria’s population should reach 35.3 million by January 1, 2010 and 40.55 million by January 1, 2020.

\(^3\) Total area: 2,381,741 square kilometers; 31,872,000 inhabitants covering 405,000 square kilometers.

\(^4\) The cities' populations range between 3 million and 4 million.

\(^5\) The oil industry accounts for more than 96 percent of export earnings (USD 32.5 billion in 2004).
The business borrowing ratio of 34 percent of GDP\(^6\) is growing, but it is still low compared to similar economies. Access to banking services is also lagging behind and cash is still the primary payment instrument, accounting for more than half of the money supply.

### MAIN MACROFINANCIAL INDICATORS

<table>
<thead>
<tr>
<th>Year</th>
<th>2000</th>
<th>2001</th>
<th>2002</th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash (M1)</td>
<td>1048</td>
<td>1238</td>
<td>1416</td>
<td>1630</td>
<td>2172</td>
<td>2423</td>
</tr>
<tr>
<td>Money supply (M1 and M2)</td>
<td>2023</td>
<td>2474</td>
<td>2902</td>
<td>3354</td>
<td>3756</td>
<td>4147</td>
</tr>
<tr>
<td>GDP</td>
<td>4123</td>
<td>4261</td>
<td>4546</td>
<td>5264</td>
<td>6127</td>
<td>7478</td>
</tr>
<tr>
<td>Lending to the business sector</td>
<td>994</td>
<td>1078</td>
<td>1267</td>
<td>1380</td>
<td>1535</td>
<td>1778</td>
</tr>
<tr>
<td>Total deposits with banks</td>
<td>1442</td>
<td>1790</td>
<td>2127</td>
<td>2443</td>
<td>2704</td>
<td>2944</td>
</tr>
<tr>
<td>Business sector debt ratio in nominal terms (lending to the business sector/GDP)</td>
<td>24</td>
<td>25</td>
<td>28</td>
<td>26</td>
<td>25</td>
<td>24</td>
</tr>
<tr>
<td>Cash as a % of money supply (M1 and M2)</td>
<td>52</td>
<td>50</td>
<td>49</td>
<td>49</td>
<td>58</td>
<td>58</td>
</tr>
</tbody>
</table>

**Sources:** CNES, Bank of Algeria

Despite progress made in modernizing the banking industry and reinvigorating the bond market, the private sector receives very little in the way of financial resources. As a percentage of GDP, lending to the private sector stood at only 13 percent in 2004, compared to 56 percent in Morocco and 61 percent in Tunisia.

**Lending by banks breaks down as follows:**

**Source:** World Bank Report, September 2003

**Algeria's financial sector is dominated by government banks.** The banking sector accounts for 93 percent of the assets in the financial sector, with government banks holding more than 90 percent of the banking sector’s assets. There are currently six government banks, which traditionally focus on financing for larger firms, government corporations and

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real estate (in the case of CNEP), and five finance companies. In addition, Algérie Poste, which has yet to be authorized as a postal bank, offers an increasingly wide range of financial services. It has the largest branch network in the country, with 3,271 offices in all 48 wilayas. The Algerian government has started the privatization process for government banks. Crédit Populaire d’Algérie (CPA) should be privatized in 2006.

The 1990 Banking Act allows banks to be set up under domestic and foreign private ownership. Most of these banks ran into serious trouble, with the most notable case being the collapse of Banque Khalifa in 2003. The regulator’s decision to increase the minimum capital requirement fivefold from DZD 500 million to DZD 2,500 million helped to strengthen the banking sector and resulted in the withdrawal of authorization from five private Algerian banks and a semi-private bank between 2003 and March 2006.

The private commercial bank sector is recent but growing. It is made up of 10 banks today, including a semi-private bank. The number of branches is still quite small for these banks (approximately 70 of the 1,200 bank branches in Algeria), but it is growing. This sector is made up entirely of subsidiaries of major international banks. Private credit institutions are aimed primarily at businesses and high-income personal banking customers, even though credit institutions offering consumer loans have recently been created to serve a broader base of customers holding payroll jobs.

Bank branches authorized by the Bank of Algeria to conduct foreign trade transactions, including funds transfers to other countries, can be broken down as follows:

<table>
<thead>
<tr>
<th>Wilayas</th>
<th>BNA</th>
<th>CPA</th>
<th>BEA</th>
<th>BADR</th>
<th>BDL</th>
<th>Other banks</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Algiers</td>
<td>35</td>
<td>29</td>
<td>20</td>
<td>16</td>
<td>13</td>
<td>29</td>
<td>142</td>
</tr>
<tr>
<td>Oran</td>
<td>14</td>
<td>8</td>
<td>6</td>
<td>8</td>
<td>4</td>
<td>9</td>
<td>49</td>
</tr>
<tr>
<td>Annaba</td>
<td>3</td>
<td>5</td>
<td>4</td>
<td>4</td>
<td>2</td>
<td>3</td>
<td>21</td>
</tr>
<tr>
<td>Constantine</td>
<td>8</td>
<td>6</td>
<td>2</td>
<td>5</td>
<td>2</td>
<td>2</td>
<td>25</td>
</tr>
<tr>
<td>Other wilayas</td>
<td>115</td>
<td>77</td>
<td>53</td>
<td>244</td>
<td>114</td>
<td>15</td>
<td>618</td>
</tr>
<tr>
<td>TOTAL</td>
<td>175</td>
<td>125</td>
<td>85</td>
<td>277</td>
<td>135</td>
<td>58</td>
<td>855</td>
</tr>
</tbody>
</table>

Source: Bank of Algeria

II.3. The Drive to Reform and Major Programs to Modernize the Financial Sector

At the initiative of the Deputy Minister for Financial Reform, the regulatory and technical framework for Algeria’s financial sector is undergoing (r)evolution. In particular, we should cite Order 03-11 on Currency and Credit, the fivefold increase in the minimum capital requirement for banks and finance companies, the establishment of a real-time gross settlement (RTGS) system for large-value payments in February 2006, and a clearing system.

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7 Including a special purpose government finance company, Banque Algérienne de Développement (BAD).
8 Algérie Poste plans to create a financial services subsidiary by setting up a Postal Bank. This information was gathered from the General Manager during the mission.
9 The BDL and BNA have been cited as possible candidates for privatization.
10 Act 90-10 of April 14, 1990 on Currency and Credit, as amended by Order O3-11 of August 26, 2003.
11 The undertakings affected were: El-Khalifa, BCIA, Union Bank, CAB (disciplinary sanction), Mouna Bank, Arco Bank, AIB, BGM, and Al Rayan (for failing to comply with regulations regarding the increase in capital).
12 Excluding CNMA Banque, which belongs to the Algerian cooperative farm credit bank group and distributes its banking products through the CNMA’s branches.
13 Including CETELEM Algérie, which was authorized on February 22, 2006.
14 The branch network of the rural and farm bank, BADR, was extended throughout the country.
for retail payments in the first half of 2006, the legislation on mortgage securitization, financial leasing for real estate, factoring, promotion of venture capital, the overhaul of the Algiers stock exchange since 2003, the fight against money laundering and, finally, the strengthening of the internal audit function (audit committees) and personnel management function at government banks (performance contracts).

The staff at the Deputy Minister for Financial Reform is working on two major projects to develop microfinance in Algeria: the right to a bank account and a preliminary draft of legislation on credit unions.

The development of the payment system and bank card system, which had been seen as the weakest link in Algeria’s financial system, is a promising sign for microfinance.

The RTGS system has been operational since early February 2006. It handles large-value interbank payments with a minimum payment amount of DZD 1 million.

The retail payment system will soon be operational. It will make it possible to handle debt instruments electronically and offset reciprocal claims. It will reduce check payment times and reduce the work burden by handling transactions electronically. This will improve the security of checks as a means of payment.

The development of bank card systems has picked up speed at the initiative of Algérie Poste, which will install ATMs in 1,300 post offices and 1,000 electronic payment terminals in post offices by 2008, with the target of 2.5 million ATM cards by the end of 2006. This work is being conducted with the technical support of Société d'Automatisation des Transactions Inter Bancaires et de Monétique (SATIM). This company plans to install 45,000 electronic payment terminals and 4,000 ATMs by 2008-2009, whereas at the end of 2005, there were only 1,000 terminals and 350 ATMs.

The statistics regarding the number of interbank cardholders highlight the critical role played by Algérie Poste and the growing strength of CPA.

<table>
<thead>
<tr>
<th>Institutions</th>
<th>1999</th>
<th>%</th>
<th>2001</th>
<th>%</th>
<th>2003</th>
<th>%</th>
<th>2005</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Algérie Poste</td>
<td>91,534</td>
<td>98.77</td>
<td>130,094</td>
<td>92.12</td>
<td>178,311</td>
<td>86.97</td>
<td>271,291</td>
<td>85.73</td>
</tr>
<tr>
<td>CPA</td>
<td>28</td>
<td>0.03</td>
<td>4,192</td>
<td>2.97</td>
<td>5,005</td>
<td>2.44</td>
<td>22,081</td>
<td>6.98</td>
</tr>
<tr>
<td>Total</td>
<td>92,672</td>
<td>100.00</td>
<td>141,224</td>
<td>100.00</td>
<td>205,033</td>
<td>100.00</td>
<td>316,438</td>
<td>100.00</td>
</tr>
</tbody>
</table>

Source: SATIM

We should also cite the agreement between the French training bodies, Société interbancaire de formation (SIBF) and Centre de Formation Professionnel Bancaire (CFPF), to train the managerial staff of Algerian banks.

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15 See the website of the Algerian market watchdog, COSOB (Commission d’Organisation et de Surveillance des Opérations de Bourse), www.cosob.org.
16 RTGS (Real-Time Gross Settlement) systems are designed to handle large-value interbank payments. Each transaction is settled for the gross amount in real time. The payment is made when or before the beneficiary is notified.
17 The objective is to process checks in five days.
18 Bank checks for amounts in excess of DZD 200,000 no longer circulate on the domestic market.
19 CFPB is a subsidiary of Institut Technique des Banques de France (ITB).
III. Microfinance Supply and Demand

III.1. Definition of Microfinance and Issues

The term microfinance is used to mean the provision of financial services including savings, loans, and means of payment to low-income population groups, such as craft workers, merchants, farmers, and even payroll employees.20

Microfinance includes retail banking for people that are excluded from the financial system, as well as financing for very small enterprises (fewer than 10 employees). It may also include housing loans, consumer loans, and even insurance.21

A distinction must be made between financing for very small enterprises and measures to support the creation of small businesses through coordinated support action for entrepreneurs and financial support, which generally means low-interest loans. These measures primarily come into play during the start-up phase and combine financing with technical assistance. The financing aspect focuses on medium-term or long-term equipment loans with repayments over several years.

Financing systems for very small enterprises are complementary arrangements used primarily for existing businesses, providing working capital or investment capital financing for relatively short terms of up to 24 months. The supporting services are limited to loan monitoring to ensure repayment.

Customer service is top quality and international experience shows that the repayment rates are excellent.22 Loans are granted quickly (often in less than a week) and rely on unconventional security, such as joint guaranties or pawned items. Loans are renewed very quickly and make it possible to increase loan amounts as the borrowing business grows. This process is facilitated by the use of credit scoring techniques.

The purpose of microfinance is to develop inclusive financial systems providing access for the largest numbers possible, rather than establishing specific or temporary measures for population groups that are excluded from the financial sector.

III.2. Demand for Microfinance

An overall estimate of the need for microfinance, and business loans in particular, can be based on the statistics on the number of households and the number of very small enterprises (including those in the informal sector).

The number of households stands at approximately 5 million and the estimated number of officially constituted very small businesses with up to 10 employees stood at 148,725 at the beginning of 2000, accounting for 221,975 officially reported jobs.23

20 The term is used here in its internationally accepted meaning. In Algeria, the terms microfinance and microcredit are also used in relation to government measures to support the creation of microenterprises and fight unemployment.
21 Including credit insurance, and insurance for fire and natural disasters (including drought insurance for farmers), home insurance, etc. There is unlikely to be much demand for health insurance in Algeria, because of the government policy on virtually free access to hospital care.
22 For example, the Portfolio of arrears over 30 days ranges between 0 percent and 2 percent. The following figures bear this out: 0.70 percent for Compartamos (Mexico), 0.20 percent for Al Amana (Morocco), 0.59 percent for Acleda Bank (Cambodia), 0.65 percent for XAC Bank (Mongolia). Source: The Microbanking Bulletin, www.mixmbb.org.
23 Source: CNES assessment report on employment measures, p. 43.
The informal sector is large and growing steadily. It employed an estimated 1,249,000 people in 2003, accounting for 17.2 percent of total employment. The informal sector is growing at an average annual rate of 8 percent and is estimated to account for 13 percent of GDP.\textsuperscript{24} This is a key point for determining the potential demand for credit services from very small enterprises, since those in the informal sector usually do not have access to bank loans.

Furthermore, households’ needs for local financial services are far from being satisfied, as only an estimated 30 percent have bank accounts.

\textbf{III.3. Diverse but Inadequate Supply}

A number of players of different types are involved in providing microfinance services, but the market of small production units and merchants can be deemed to be virtually untapped.

The main institution providing microfinance services is Algérie Poste, which has a large branch network, manages 7.1 million postal checking accounts and handles more than a million transactions daily. For the time being, banks seem to lack the appropriate instruments and the strategic desire to penetrate this market. Three government schemes to support very small enterprise start-ups, a non-governmental organization, and a network of cooperative finance companies also provide microfinance services.

\textit{Enhancing the Services of Algérie Poste} Algérie Poste was set up as a government corporation on January 14, 2002\textsuperscript{25} to provide both postal and financial services. Some 1,400 of Algérie Poste’s 25,000\textsuperscript{26} employees work for its financial services arm.

Incorporation means that the new government corporation Algérie Poste is organically and functionally separate from the Ministry of Postal and Telecommunications Services, which is the supervisory authority. It also means that Algérie Poste is supposed to be fully self-supporting financially. Algérie Poste has three organizational layers: central management, made up of seven line management units\textsuperscript{27} and six staff divisions;\textsuperscript{28} eight territorial post office management units (DTP), which each manage several willayas, and 48 willaya postal units (UPW), which manage local operations.\textsuperscript{29}

The financial arm of Algérie Poste generates about 80 percent of the corporation’s revenues. Algérie Poste manages 7.1 million postal checking accounts with deposits of DZD 253 billion, 3.6 million CNEP Banque savings accounts with deposits of DZD 198 billion and handles 31 million money order transactions involving DZD 2,300 billion in transferred funds.\textsuperscript{30} Total funds deposited with Algérie Poste come to DZD 451 billion and represent a market share of approximately 12 percent.

\textsuperscript{24} \textbf{Source:} CNES, "Le secteur informel : illusions et réalités", June 2004 report, pages 29 and 30 (estimated at 20 percent to 25 percent, excluding the oil industry in 2003, according to statements made by the Minister of Finance). According to the 2000 yearbook prepared by the National Statistics Office, the contribution of the informal sector to GDP is 13 percent.

\textsuperscript{25} Algérie Poste is the result of the restructuring of the Ministry of Postal and Telecommunications services, following the enactment of Act 2000-03 of August 5, 2000. It was set up by Executive Order 2002-43 of January 14, 2002 in the form of a Government Corporation (EPIC).

\textsuperscript{26} \textbf{Source:} Algérie Poste website, \texttt{http://www.poste.dz}.

\textsuperscript{27} These are: postal services, finance and accounting, postal financial services, information technology, marketing, human resources, general services.

\textsuperscript{28} These are: Communications, Legal Affairs and International Relations, Strategy, Planning, and Organization, Quality Management, Property, Audit and Management Control.

\textsuperscript{29} \textbf{Source:} Algérie Poste website, \texttt{http://www.poste.dz}.

\textsuperscript{30} Figures for 2004.
Algérie Poste is the leading financial network in Algeria, with 3,271 post offices, all of which distribute its financial products. It has developed an online account management system and it has invested in a bank card system. Algérie Poste had more than 200 automatic teller machines (ATMs) at the end of 2005 and plans call for between 1,300 and 1,400 ATMs to be installed in post offices by the end of 2008. Algérie Poste also plans to install a network of 1,000 electronic payment terminals for merchants by 2008-2009.

The partnership agreement signed between Algérie Poste and the French La Poste group on May 8, 2006 will lead to a comprehensive improvement in Algérie Poste's capacities and service quality for financial and postal services.

The geographical breakdown of revenues by territorial post office management units highlights the importance of the Algiers unit, which accounts for 30 percent of the revenues.

![Postal Checking Account Revenues by Territorial Unit in 2003](image)

**Source:** World Bank Report, 2005

Act 2000-03 does not give Algérie Poste authorization to grant loans. However, the corporation may make its branch network available to banks or finance companies to provide customer services related to loans through postal checking accounts. It has also formed a partnership with the former Caisse d’Epargne savings institution, which became CNEP Banque in 1997. This institution is gradually separating from Algérie Poste and 50 percent of its net banking income now comes from its own network of 191 branches. Algérie Poste has also been approached by finance companies specializing in consumer credit.

At present, Algérie Poste branches offer access to savings products, fund transfers, housing loans and bank cards. The majority of Algerian payroll employees have their pay

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31 Including 1,636 full-service outlets and 1,635 secondary outlets, giving a density of one post office for every 9,100 inhabitants. **Source:** Algérie Poste website, [http://www.poste.dz](http://www.poste.dz).
32 Through its website, [http://www.poste.dz](http://www.poste.dz).
33 According to the signatories, the agreement between Algérie Poste and the La Poste group is aimed at "modernizing electronic funds transfers between the two postal systems in order to promote existing and future flows, and implementing an engineering, marketing, and sales strategy for Algérie Poste's entire range of products." The agreement also covers "interconnection of both countries' hybrid mail systems and a feasibility study on project management assistance for the implementation of a proprietary system; strengthening collaboration on mail and parcel handling between the two countries in order to improve service quality." (**Source:** El Watan, dated May 9, 2006 [www.elwatan.com/2006-05-09/2006-05-09-42115](http://www.elwatan.com/2006-05-09/2006-05-09-42115)).
34 Postal checking accounts and savings products on behalf of CNEP Banque.
35 In partnership with Western Union, as well as a product managed directly by Algérie Poste.
36 On behalf of CNEP Banque.
deposited directly to an account with Algérie Poste. Revenues from financial services break down as follows:

### Breakdown of Algérie Poste revenue from financial services (2003)

<table>
<thead>
<tr>
<th>Service</th>
<th>Revenue Share</th>
</tr>
</thead>
<tbody>
<tr>
<td>Money transfer fees</td>
<td>4%</td>
</tr>
<tr>
<td>Postal check fees</td>
<td>28%</td>
</tr>
<tr>
<td>Other products</td>
<td>1%</td>
</tr>
<tr>
<td>Conducting CNEP operations</td>
<td>3%</td>
</tr>
<tr>
<td>Interest on Treasury deposits</td>
<td>64%</td>
</tr>
<tr>
<td>Withdrawals</td>
<td>1%</td>
</tr>
</tbody>
</table>

**Source:** World Bank Report, 2005

Revenues from its business activity (excluding interest on deposits with the Treasury) break down as follows:

### Breakdown of CCP revenues (2003)

<table>
<thead>
<tr>
<th>Service</th>
<th>Revenue Share</th>
</tr>
</thead>
<tbody>
<tr>
<td>Payments on demand / local currency withdrawals</td>
<td>7%</td>
</tr>
<tr>
<td>Withdrawals on demand</td>
<td>35%</td>
</tr>
<tr>
<td>Notification of holdings</td>
<td>3%</td>
</tr>
<tr>
<td>Other</td>
<td>55%</td>
</tr>
</tbody>
</table>

**Source:** World Bank Report, 2005

Algérie Poste is the only institution that can be considered to be providing microfinance services in Algeria today. The size and density of its branch network and the performance of its information system make it a unique case in the MENA zone. Yet it can still be improved.

Its prospects must not make us forget the need to enhance certain aspects of Algérie Poste. The challenges are both technical and financial:

- Enhancing the information and management system, with further work on computerization and computerized accounting;

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37 Some 180,000 payment cards distributed to its customers and 600 electronic payment terminals installed on retail premises.
- Strengthening internal audit and control systems;\textsuperscript{38}
- Improving profitability to achieve financially balanced operations, without relying on government subsidies, and sufficient cash-generating capacity;
- Learning the credit business through technical partnerships with finance companies (strengthening the partnership with CNEP Banque, partnerships with other finance companies, etc.) to become a universal postal bank\textsuperscript{39} after several years;
- Dealing with overcrowding in some city post offices pending the development of the bank card system, which will make it possible to streamline customer services;
- Reducing the threat to its revenue of a cut in the interest that the Treasury pays on postal checking deposits,\textsuperscript{40} which means that Algérie Poste needs to diversify its revenues from financial services;
- Optimizing the customer base, since nearly half of postal checking accounts are dormant.

**Algerian NGOs** There are about fifteen large NGOs operating in Algeria's non-profit sector. One of them, Touiza,\textsuperscript{41} has acquired acknowledged expertise in this area since 1996 and instituted a financing program for very small enterprises, which includes support for entrepreneurs.

The Touiza movement started in 1962 with two non-profit associations.\textsuperscript{42} The Touiza Algérie association was set up in 1989 and now has 10 paid employees, 20 volunteer experts and 6,000 members. It is organized around four activities: youth leadership, Touiza development, training and research. The movement also includes Touiza Solidarité set up in France in 1995 and Touiza Solidaridad set up in Spain in 1996. Touiza has formed 26 partnerships with foreign public and private-sector organizations and works in collaboration with the Algerian public authorities.\textsuperscript{43}

Touiza’s development branch works with project planners by granting micro loans and through a support and training arrangement. This work gave rise to a business incubator in Boghni and a micro loan unit in Cheraga.\textsuperscript{44}

The loan portfolio over ten years has included a total of more than 445 loans, 36.6 percent of which were granted to women. The current outstanding loans come to DZD 39 million. The maximum amount of a Touiza loan is DZD 350,000.\textsuperscript{45} The loans are for officially recognized merchants, craft workers and farmers who are able to put up 30 percent of the loan amount with their own money and obtain a guarantee for the loan from Touiza.

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\textsuperscript{38} The virtual lack of bank card systems in Algeria contributes indirectly to embezzlement problems and increases liquidity needs.
\textsuperscript{39} This hypothesis was one of those put forward during SOFREPOST assessment missions, by Ernst & Young, among others. In any event, according to Algérie Poste, discussions on a possible move to a postal bank will not start until 2009.
\textsuperscript{40} The current revenue generated by these deposits stands at about DZD 6 billion under a formula where the Treasury pays about 4 percent interest.
\textsuperscript{41} The name is that of an ancestral practice of mutual help and solidarity, touiza.
\textsuperscript{42} The Algerian Federation of Family Homes and Young Volunteer Workers of Algeria. Source: www.touiza-solidarite.com.
\textsuperscript{44} The Labor Ministry provided the first loan fund in 1993. The Canadian Embassy provided a fund and lending activity started in 1996. These loans serve both social and business purposes. The Boghini business incubator and the microloan unit in Cheraga opened in 1996. A fund from the UNDP was used to launch a livestock-financing project in 1997. The Ministry of National Solidarity provided a fund in 2001 and AGFUND provided another in 2003 to develop a cheese factory.
\textsuperscript{45} The maximum term of a loan is 24 months, with a lag of three months. Touiza charges a 15-percent management fee.
The loan portfolio contains 69 delinquent loans, 88 disputed loans and 6 loans that have been referred for legal action. Touiza decided on a temporary lending freeze in 2005 to evaluate its activity and is planning to resume business with a new institutional framework.

Touiza is working to improve its skills in the non-profit sector, to develop its borrower support activities and to institutionalize its financing activity. Its international partners in these tasks include a French bank, Crédit Coopératif, and SIDI.46 Touiza is investigating two institutional solutions: setting up a mutual savings and loan bank called “MADES”, or a joint-stock company that will apply for authorization as a finance company.47

**History and Current Changes of the Mutual Farm Credit Bank**48 CNMA is a cooperative financial network providing banking services for a grass-roots customer base, primarily in rural areas. Mutualité Agricole is made up of 62 Regional Mutual Farm Credit Banks (CRMA) and a National Mutual Farm Credit Bank (CNMA). The network has been authorized to conduct banking transactions since 1995 and it set up a bank as a joint-stock company in early 2006.49 CNMA has 142 branches in rural areas and 147,000 members. CNMA Banque has more than 230,000 customers,50 primarily in the farming, forestry, fishing and fish farming sectors.

In partnership with IFAD, a major project to extend the branch network was launched with the opening of 40 local mutual credit banks (CMP) in very poor areas in four wilayas. CNMA has provided technical support for starting up and monitoring the management of the CMPs. If the experiment is successful, the local banks may be integrated into the network, which would enable CNMA to develop a genuine network of local cooperative finance services to serve the rural poor in areas were private-sector investors are reluctant to do business.

**Government Support for Business Start-Ups** As part of the fight against unemployment and the promotion of small businesses in the private sector, the government has set up three schemes operated through government agencies to support small business start-ups. The agencies responsible for operating the schemes provide significant support for entrepreneurs and help them move their businesses into the formal sector.

The schemes differ with regard to loan amounts, target populations and the social objectives pursued by the Government,51 but they all operate using the same type of organization. They provide support for entrepreneurs, low-interest loans, and tax breaks for business start-ups.

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47 This solution could be implemented in partnership with the Crédit Coopératif group, which is a member of the French banking group, Natexis—Banques Populaires, and carried out a prospection visit to Touiza between January 21 and 26, 2006.

48 CNMA is the result of a merger of three cooperative credit banks in 1972, the oldest of which was founded in 1907. The CNMA group is now engaged in three types of financial businesses. It is the largest provider of farm insurance. Its subsidiary SALEM engages in farm equipment leasing, including farm machinery, pumps, and agricultural products, and CNMA Banque is a joint-stock company that provides banking services and has been in operation since January 2006. The CNMA group also manages 11 government funds on behalf of the Ministry of Agriculture, including farm support bonuses, slaughter funds, and vaccination funds. The CNMA network is governed by Order 72-64 of December 2, 1972 on farmers' cooperative institutions and by Executive Orders 95-97 of April 1, 1995 and 99-273 of November 30, 1999, which determine the standard bylaws for cooperative farm credit banks and the legal and corporate links between them.

49 This change was required by OMC 03-11, which abolished the monetary authority’s power to grant a cooperative insurance company special dispensation to engage in banking transactions. CNMA Banque is a subsidiary of CNMA and the 62 regional cooperative farm credit banks (CRMAs).

50 **Source:** Interviews and the CNMA website, [www.cnma.dz](http://www.cnma.dz).

51 ANGEM and ANSEJ are aimed directly at business start-ups and promoting entrepreneurship, while CNAC is aimed at helping the unemployed rejoin the work force.
Except in special cases, the loans made under these schemes are granted and disbursed by government banks under the terms of partnership agreements with each of the schemes. The banks' credit risk is minimized by guarantees made with funds provided in part by the Treasury.

The National Agency for Youth Employment (ANSEJ) provides young people aged 19 to 35-40 with support for starting and financing microenterprises. The eligible investment amounts can now be up to DZD 10 million. According to the Agency, the scheme financed 52,393 projects in 2003. It has a network of 53 branches.

The National Unemployment Benefit Fund (CNAC) set up a scheme to provide financing for the unemployed aged 35 to 50, for investment amounts up to DZD 5 million. It includes a lending system with interest-free initial loans and low-interest loans, a mutual credit insurance fund covering 70 percent of the loans made by banks, and support for borrowers. The scheme is governed by specific regulations. Banks have entered into some 3,500 financing agreements under the terms of the CNAC scheme, with fewer than 2,000 loans disbursed and more than 5,000 new jobs created.

The National Microfinance Management Agency (ANGEM) was set up by a decision of the government council on December 16, 2003. It has branches throughout the country and employs more than 600 people. It is primarily aimed at making loans for DZD 50,000 to DZD 400,000 for women homemakers. It took over the loan portfolio of the Social Development Agency (ADS), which contains many troubled loans.

ANGEM has disbursed its microloans of up to DZD 30,000 directly since April 2005. In view of the long repayment terms, there are still no meaningful statistics about the repayment rate. ANGEM has signed agreements with a few government banks for disbursing larger amounts, but the first disbursements have yet to be made. Some 15,000 eligible loan applications are awaiting decisions to grant bank financing.

On the institutional front, the government agency ANGEM plans to decentralize within the next two to three years, setting up a network of local cooperative bodies linked to ANGEM by partnership agreements covering refinancing and subsidies. This move would strengthen Algeria's civil society.

52 In the past, some private Algerian-owned banks, including Khalifa Bank, took part in these schemes. Today, the private sector is no longer involved.
53 Or approximately USD 133,333, which can hardly be categorized as microfinance!
54 Or approximately USD 66,666 at an exchange rate of USD 1 = DZD 75.
55 Or approximately USD 666 to USD 5,333. This is the core target for microfinance with regard to Algeria’s per capita GDP of approximately USD 3,300.
56 Source: http://www.ansej.org.dz. In 2003, this represented "investments of some DZD 87 billion, of which DZD 56 billion came from bank loans, DZD 16 billion from interest-free loans granted by FNSEJ, and DZD 15 billion in capital raised by the young entrepreneurs. The breakdown of the 177,429 eligible projects by activity sector shows that the service sector accounts for the biggest share at 52.07 percent, followed by agriculture at 21.36 percent, the craft industry at 10.44 percent, and food processing at 8.24 percent. (Source: ANSEJ).
57 Source: CNAC.
60 The main reasons for the failure of the scheme lie in inadequate monitoring of loans after disbursement.
**Performance of Government Schemes** The advantage of these schemes is that they combine two key elements: technical support for entrepreneurs, before and after loans are granted, and financing for business start-ups, which banks are usually reluctant to provide.

There were some problems with the lending side in the start-up phase, particularly under the ADS scheme. This led to changes in the methods used.

Several elements still need to be improved, including the quality of customer service in banks, training for bank loan officers in this type of loan, delays in banks’ examination of loan applications and their response to them, and the burdensome procedures involved at some stages in the process.

**Government Banks** There are six government banks, which account for 90 percent of the bank branches in Algeria, with a total of 1,100 branches, and five finance companies. Government banks have traditionally specialized in the business market, but they are starting to open up to the retail banking market.

The six government banks and CNMA are involved in the ANSEJ, ANGEM and CNAC government schemes, even though they initially lacked the appropriate tools. This led to execution problems under the first government scheme linked to ADS.

Some government banks have developed suitable products for the retail market. BDL offers consumer loans and has seven pawn broking branches that are a legacy of the municipal credit banks. These branches are very profitable, very responsive, and lend very substantial sums. CPA offers a full range of housing loans and some consumer loans, such as car loans.

<table>
<thead>
<tr>
<th>Banks</th>
<th>Number of branches</th>
<th>Main business areas</th>
</tr>
</thead>
<tbody>
<tr>
<td>BEA</td>
<td>76</td>
<td>Large corporations and oil industry</td>
</tr>
<tr>
<td>BNA</td>
<td>190 (173 branches + 17 regional operations management units (DRE))</td>
<td>Large corporations and SMEs</td>
</tr>
<tr>
<td>BADR</td>
<td>327 (290 branches and 37 representative offices)</td>
<td>Rural customers (farm credit, equipment credit), large corporations, SMEs</td>
</tr>
<tr>
<td>CNEP Banque</td>
<td>191 + partnership with Algérie Poste</td>
<td>Very wide range of savings products and housing credit solutions, retail market</td>
</tr>
<tr>
<td>BDL</td>
<td>162 (140 branches + 6 pawn broking branches + 16 operational groups)</td>
<td>General banking, business market, SMEs and retail market, self-employed professionals, pawn broking</td>
</tr>
<tr>
<td>CPA</td>
<td>136 (121 branches + 15 operational groups)</td>
<td>General banking, business and retail market, SMEs</td>
</tr>
</tbody>
</table>

As a general rule, the strengthening of the banking industry is continuing with asset restructuring, improvements to control systems and techniques, and product development. This modernization drive is being led by the Ministry of Finance with support from the

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61 These are: BADR (427 branches), CNEP Banque (191 branches), BNA (188 branches), BDL (162 branches), CPA (136 branches), and BEA (76 branches).

62 These are: SOFINANCE, FINALEP, SRH, SALEM, a subsidiary of CNMA (private cooperative credit bank structure), and Banque Algérienne de Développement (government finance company).

63 Loans are granted on the same day, after valuation of gold jewelry.

64 DZD 4 billion from 6 branches, or DZD 667 million per branch. The success of these specialized branches encouraged BDL to open a seventh branch in early 2006.
European Union MEDA program. It should start in 2006 with “assistance with the implementation of retail banking services for the 6 government banks in Algeria.”

The sector also includes five finance companies engaged in a full range of activities:

<table>
<thead>
<tr>
<th>Finance companies</th>
<th>Main business areas</th>
</tr>
</thead>
<tbody>
<tr>
<td>SOFINANCE - Société Financière d’Investissement, de Participation et de Placement (only one branch in Algiers)</td>
<td>The original objective was to support the restructuring of government corporations. The institution is currently engaged in the development and strengthening of industry based on SMEs.</td>
</tr>
<tr>
<td>FINALEP (only one branch in Algiers)</td>
<td>Venture capital firm that focuses primarily on increasing the capital of SMEs in the start-up, development or transfer stages.</td>
</tr>
<tr>
<td>Société de Refinancement Hypothécaire (SRH)</td>
<td>Refinancing for banks’ and finance companies’ loans to households to buy new housing units, to carry out home improvements or build homes.</td>
</tr>
<tr>
<td>SALEM—Société Algérienne de Location d’Equipements et de Matériels</td>
<td>Leasing company that is a subsidiary of CNMA, specialized in equipment leasing. It invests in the farm sector as a general rule.</td>
</tr>
<tr>
<td>Banque Algérienne de Développement (BAD)</td>
<td>Financial institution set up by the government in the early 1960s to work for Algeria’s economic development.</td>
</tr>
</tbody>
</table>

**Foreign-Owned Private-Sector Banks** There are ten private-sector banks, which are mainly subsidiaries of major international banking groups, doing business with a high-end customer base made up of businesses and rich individuals. There are also three finance companies. These banks have some 70 branches and, for the time being, they are not very interested in providing retail banking services for low-income customers. These banks do not have, and will not have in the medium term, enough branches equipped to provide microfinance services. Therefore, private-sector banks are not big players in the provision of microfinance services, at least in terms of having the physical infrastructure needed to handle very large numbers of customers.

<table>
<thead>
<tr>
<th>Banks</th>
<th>Number of branches</th>
<th>Main business areas</th>
</tr>
</thead>
<tbody>
<tr>
<td>Banque Al Baraka Algérie</td>
<td>11</td>
<td>Islamic banking</td>
</tr>
<tr>
<td>Arab Banking Corporation Algérie (ABC)</td>
<td>4</td>
<td>High-end business customers</td>
</tr>
<tr>
<td>NATEXIS Banque</td>
<td>3</td>
<td>Larger SMEs and plans to develop retail banking and leasing businesses</td>
</tr>
</tbody>
</table>

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65 For more information about this program and the related call for tenders, see the European Union website: [http://europa.eu.int/comm/europeaid/tender/data/d86/AOF62986.htm](http://europa.eu.int/comm/europeaid/tender/data/d86/AOF62986.htm).

66 **Ownership:** Banque de Développement Local (BDL, Algeria) 40.00 percent, Agence Française de Développement (AFD, France) 28.74 percent, Crédit Populaire d’Algérie (CPA, Algeria) 20.00 percent, Banque Européenne d’Investissement (BEI, Luxembourg) 11.26 percent.

67 These are: Banque Al Baraka Algérie (11 branches, public-private ownership by the government bank BADR and private shareholders), Arab Banking Corporation Algérie “ABC” (4 branches), NATEXIS Banque (3 branches), Société Générale Algérie (17 branches), CITIBANK, Arab Bank PLC Algeria (3 branches), B.N.P. / PARIBAS El Djazair (10 branches), Trust Bank Algeria, Algeria Gulf Bank (1 branch), Housing Bank for Trade and Finance (3 branches).

68 These are: ALC-Arab Leasing Corporation, Cetelem, Maghreb leasing.

69 Bank with public-private ownership equally split between BADR Bank (Algerian government bank) and Al-Baraka Holding (Bahrain).
<table>
<thead>
<tr>
<th>Société Générale Algérie</th>
<th>17</th>
<th>Universal local retail banking focusing on financing for large businesses. Rapidly expanding branch network</th>
</tr>
</thead>
<tbody>
<tr>
<td>CITIBANK</td>
<td>1</td>
<td>High-end business customers and oil industry</td>
</tr>
<tr>
<td>Arab Bank PLC Algeria</td>
<td>3</td>
<td>Branch of a bank for high-end business customers</td>
</tr>
<tr>
<td>B.N.P. / Paribas El Djazaïr</td>
<td>10 (9 branches and 1 representative office)</td>
<td>Universal retail bank with an expanding branch network</td>
</tr>
<tr>
<td>Trust Bank Algeria</td>
<td>1</td>
<td>High-end business customers</td>
</tr>
<tr>
<td>Algeria Gulf Bank</td>
<td>1</td>
<td>Large and medium-sized enterprises</td>
</tr>
<tr>
<td>Housing Bank for Trade and Finance</td>
<td>3</td>
<td>High-end business and personal customers</td>
</tr>
</tbody>
</table>

The situation of some banks could evolve in the long term as they expand their branch networks and/or take over privatized government banks. The Algerian Bank and Finance Company Association (ABEF) estimates that government and private-sector banks would have to open some 1,000 new branches in order to have 2,200 branches in 2010.

Some subsidiaries specializing in consumer loans are seeking a much broader customer base. Algeria’s large payroll job sector and the potential market mean that this sector is likely to see strong growth in coming years.

<table>
<thead>
<tr>
<th>Finance companies</th>
<th>Main business areas</th>
</tr>
</thead>
<tbody>
<tr>
<td>Arab Leasing Corporation “ALC”</td>
<td>Leasing company. It is currently expanding its financing for SMEs.</td>
</tr>
<tr>
<td>MAGHREB LEASING</td>
<td>Leasing for SMEs</td>
</tr>
<tr>
<td>CETELEM</td>
<td>Consumer loans</td>
</tr>
</tbody>
</table>

### III.4. Potential for Microfinance

It is estimated that approximately 30 percent of Algeria’s population uses banking services, with only one bank branch or post office for every 7,250 inhabitants. The 1.25 million workers in the informal sector, who have no access to credit, and the small proportion of banked households, also give an idea of how large the unmet credit needs are.

The potential for developing microfinance looks immense, in view of the needs that the financial sector fails to meet. A market survey commissioned by the IFC should provide a better assessment of needs. The market survey should start in the spring of 2006.

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70 Société Générale plans to expand from 17 to 50 branches by 2010, or more if its circumstances permit.
71 Source: Interview with the ABEF Secretary General, http://www.afrik.com/article8557.html.
72 Ownership: Arab Banking Corporation—ABC Algeria 34 percent, TAIC—The Arab Investment Company 25 percent, CNEP Banque 20 percent, DIGIMEX 9 percent, SFI 7 percent, ALGEMATCO 5 percent.
73 Ownership: Tunisie Leasing 36 percent, Amen Bank (Tunisia) 25 percent, Dutch FMO 20 percent, Proparco (AFD subsidiary) 10 percent, Maghreb Private Equity Fund 5 percent, CFAO 4 percent.
74 A subsidiary of the BNP Paribas group.
75 Approximately 1,200 banking branches and 3,300 post offices, for a total of 4,550 service outlets for 33 million inhabitants. This works out to one bank branch for every 27,000 inhabitants and one post office for every 10,000 inhabitants.
IV. Legal Framework for Institutions Providing Microfinance Services

The regulatory framework for banking (savings, loans, means of payment) is set out in OMC 03-11, which deals with banking regulations. Regulations for the cooperative financial sector are currently being drafted. Therefore, it is important to see how inclusive financial systems could be fitted into either piece of legislation.

IV.1. Legal and Institutional Forms

Algerian law allows financial intermediaries to be set up under various legal forms, including joint-stock companies, non-profit associations and cooperative associations. Several types of authorization are possible. The legislation makes the following solutions possible to varying degrees:
- Doing business through a bank or a finance company,
- Doing business through an unregulated local NGO,
- Doing business through a cooperative financial system.

Doing Business through a Credit Institution

Banks and finance companies are credit institutions. Such institutions are usually incorporated as Algerian joint stock companies (SPA). There are no obstacles to foreign ownership of credit institutions. In fact, some are now fully-owned subsidiaries of international banks.\(^{77}\)

A commercial bank is authorized to conduct all banking transactions, including taking deposits, granting loans (including pawn broking, leasing and signature loans) and managing means of payment. The minimum capital requirement for banks has been raised to DZD 2.5 billion.\(^{78}\)

A finance company is authorized to conduct all banking transactions, except taking deposits from the public and managing means of payment. The minimum capital requirement for finance companies has been raised to DZD 500 million.\(^{79}\)

In many countries, especially in Latin America, the business of commercial banks is facilitated by using service companies that act as intermediaries for banking transactions, linking banks and low-income customers. This approach could be considered in Algeria.\(^{80}\)

Doing Business through an Algerian NGO

OMC 03-11 excludes from the credit institutions category “non-profit bodies that, as part of their task and for social purposes, grant loans out of their own funds to some of their members on preferential terms.”\(^{81}\)

This provision allows Algerian NGOs to engage in lending to their members without being subject to banking supervision. Some of the restrictions stipulated in OMC 03-11 could hamper the development of financing for very small enterprises using such structures.

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\(^{77}\) This is the case, even though the government maintains the right to veto foreign ownership under the second paragraph of Article 83 of OMC 03-11: “foreign ownership of banks and finance companies incorporated in Algeria may be authorized.”

\(^{78}\) Or 2.5 billion/75 = USD 33.33 million, approximately. This increase, along with a requirement for capital to be paid up immediately in cash, led to the withdrawal of authorization from banks that were not able to comply. The last bank to lose its authorization was Al-Rayan Bank, in March 2006.

\(^{79}\) Or 500 million/75 = USD 6.67 million, approximately.

\(^{80}\) The intermediary for banking transactions handling funds on behalf of the bank or the customer may be considered to be managing means of payment and, in this capacity, may be subject to very simple regulations that provide adequate safeguards.

\(^{81}\) OMC 03-11, Article 77.
Financing very small enterprises’ activity does not really correspond to a social purpose. The requirement that lending come from the bodies’ own funds means that they cannot borrow funds. Finally, the mention of preferential terms hints at low-interest loans. These restrictions have not prevented Touiza from engaging in lending, but they do limit the viability of this activity and its potential for growth.

However, these limits do not restrict the development of microfinance, since the limitations of such NGOs rapidly become apparent. There are other institutional solutions available under the terms of OMC 03-11 (finance companies) or under future legislation on credit unions.

**Doing Business through the Cooperative Financial System** Cooperative financial systems can opt for one of two sets of regulations: the one currently being drafted for credit unions or the one already in force under the terms of OMC 03-11.

Article 81 of the 2006 Budget Act introduced the notion of credit unions into Algerian law as follows: “A cooperative institution with a special status called a “credit union” may be set up for the purpose of collecting and raising funds and granting loans exclusively to its members. The monetary authority shall stipulate the procedures for setting up such bodies and the operating and audit rules for such institutions.”

The staff of the Deputy Minister for Financial Reform has prepared a preliminary draft of the bill, which is now being examined by the government.

In addition, the Currency and Credit Council (CMC) has the right by derogation to authorize the incorporation of a cooperative bank or a cooperative finance company. These authorized institutions are subject to banking regulations in the same way as banks and finance companies incorporated as joint-stock companies are. However, the CMC has not granted any such derogation and the derogation remains virtual and may even be technically difficult to implement.

**IV.2. Prudential Regulation and Financial Transparency**

Regulations on prudential standards and financial transparency apply only to authorized credit institutions, meaning banks and finance companies.

**Prudential and Financial Standards** Banking regulations include a solvency ratio (Cooke Ratio), two risk-concentration ratios, a gap management ratio, a ratio for unsecured foreign exposures, a ban on lending to the bank’s officers, shareholders and statutory auditors and

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82 In this respect, the limitations of the Moroccan system for promoting the development of cooperative microfinance organizations have become apparent less than ten years after it was founded. The system cannot take deposits from the public, thereby depriving customers of a useful service. The cooperative microfinance organizations need to be placed under the supervision of the monetary authorities and regulatory changes are required to tap new sources of refinancing so that the loan portfolio can continue to expand.

83 OMC 03-11, Article 83.

84 This provision, which is a common one in banking regulations around the world, is in apparent contradiction with the absolute ban on granting loans to a bank’s officers, shareholders, and other companies in the same group (OMC 03-11, Article 104. A bank or finance company shall be prohibited from granting loans to its officers, its shareholders, or undertakings in the same group as the bank or the finance company. For the purposes of this Article officers shall mean founders, directors, representatives and persons with power of signature. The spouses and first-degree relatives of officers and shareholders shall be subject to the same prohibition. At the very least, this ban should not be applied to the banks at the head of cooperative networks and their financial transactions with their shareholders, which are the local credit banks. This adaptation would enable cooperative financial networks to become fully-fledged members of the national and international financial community.
reserve requirements. In addition, authorized banks and finance companies trading on the interbank foreign exchange market are required to comply with two foreign-exchange risk hedging ratios.

As a general rule, these standards do not constitute an obstacle to joint-stock companies' developing microfinance in Algeria. However, in some cases, they may not be suitable for cooperative financial systems.

Annex B: Prudential Standards and Microfinance

Financial Transparency Generally speaking, financial transparency standards are not an obstacle to developing inclusive financial systems, even though some standards may be excessively burdensome in view of the activity concerned.

Credit institutions are required to appoint two statutory auditors to certify their financial statements each year. Public accountants are subject to legal requirements and supervised by the National Order of Public Accountants, Statutory Auditors, and Chartered Accountants. The Bank of Algeria’s reporting requirements should not pose any problems for an institution with an efficient information and management system.

However, it should be pointed out that the system for the impairment and provisioning “non-performing” loans, as it is conceived for banking, is totally inappropriate for the business of financing very small enterprises with short-term loans.

In international practice, the criteria for impairment and provision are default (unremedied payment incidents), rescheduling (extension of term and/or offsetting claims, with the granting of a new loan). International rating systems systematically apply the criterion of the thirty-day arrears rate. The minimum provisioning rates are as follows: 10 percent to 20 percent at 30 days, 50 percent at 90 days, 100 percent at 180 days. After 24 months the provisions are written back and the loans are written off. These provisioning rates are applied because they are statistically accurate on the whole, even though there may be exceptions in individual cases.

Anti-Money Laundering Standards Algeria adopted anti-money laundering regulations in 2002 and in 2005. These regulations apply to banks, finance companies, and “other financial institutions.” Under the provisions in force, credit unions could also be considered

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85 Banks are currently required to maintain reserves of 6.5 percent on deposit with the Bank of Algeria, which pays 1 percent interest on such deposits.
86 OMC 03-11, Articles 100 to 102.
87 Audited annual financial statements must be published in the Official Gazette of Legal Notices and in another publication as appropriate, within six months of the end of the accounting period. The statements include the balance sheet, off-balance sheet items, the income statement and notes to the financial statements (OMC 03-11, Article 103 and Regulation 92-09 of November 17, 1992 on compiling and publishing the annual financial statements of banks and finance companies).
88 Act 91-08 of April 27, 1991 on the profession of chartered accountant, statutory auditor, and public accountant.
89 Reporting requirements for credit institutions are broken down into monthly reporting (reserve requirements, monthly financial statements, foreign exchange position, foreign exposures), quarterly reporting (Cooke ratio, risk concentration ratios), and annual reporting (balance sheet, off-balance sheet items, and income statement, gap management ratio, internal control report, statutory auditors’ report).
91 Act 05-01 of February 6, 2005 on preventing and fighting money laundering and terrorist financing; Executive Order 02-127 issued on April 7, 2002 on the creation, organization, and operations of the Financial Intelligence Unit (CTRF); Executive Order 06-05 of January 9 2006 on the form, layout, content, and acknowledgement of receipt for suspicious transaction reports.
92 Act 05-01, Article 7.
subject to the regulations. For the time being, there are no regulations relating to banking transaction intermediaries, but they are probably covered by Article 19 of the Act.\footnote{In addition to banks, this Article applies to finance companies and Algérie Poste: cooperative credit banks, bureaux de change, and “any natural or legal person that, as a part of their regular business, advises and/or carries out transactions involving deposits, exchanges, investments, conversions, or any other capital movements, especially self-employed agents in regulated professions”.
}{93}

Anti-money laundering standards could be a potential obstacle to the development of microfinance if the legislative authorities and regulators apply the 40 + 8 FATF\footnote{See the CGAP survey on this subject: “AML/CFT Regulation: Implications for financial service providers that serve low-income people” (Focus Note 29, July 2005) (Available at www.cgap.org/docs/FocusNote_29.pdf, in English and in Arabic).
}{94} Recommendations too strictly. The case of the South African banking industry, which is having problems meeting the requirements, is a significant one in this regard.\footnote{See the CGAP survey on this subject in Focus Note 29, page 10, mentioned above.
}{95}

Some of the provisions are particularly onerous in this context. This is the case for the standards requiring \textit{accurate identification of customers, record retention}, as well as the standards regarding the \textit{scope of suspicious transaction reports}. These provisions could be mean substantial extra costs for both institutions providing microfinance services and for their customers, thereby thwarting worthwhile initiatives.

\textbf{Annex C:} Financial Transparency Standards for Banks and Finance Companies

\section*{IV.3. Interest Rates}

\textbf{Rate Caps} Interest rates were gradually deregulated, starting with Instruction 07-95 in 1995, which set the applicable terms for banking transactions and eliminated the usury rate, but which entitled the Bank of Algeria to set a maximum bank margin.\footnote{Instruction 07-95, Article 2, paragraphs 2 and 3.
}{96} Then, the latter limit was abolished in 2001, leaving credit institutions free to set their terms according to their own business policy.

There is no standard method for calculating the annual percentage rate (APR) for loans, but credit institutions are required to state clearly the commissions charged in addition to the nominal rate.\footnote{Under the terms of BCA Instruction 07-95 of February 22, 1995 on the conditions for banking terms, Article 4 stipulates that, “Banks and finance companies shall be required to ensure adequate publicity of the terms for banking operations, and more specifically, lending and deposit rates, as well as the level of commissions, so that the public may be aware of such terms, which shall be displayed in every branch.” Similarly, regulations apply to value dates and operations for which a commission is likely to be charged.
}{97}

Interest rates on consumer loans from credit institutions are significantly higher than interest rates on larger medium-term and long-term loans.\footnote{The mission noted that the APRs (annual percentage rates including the nominal rate, fees, and expenses) stood at 25 percent to 30 percent on small consumer loans for terms of 12 months or less.
}{98} Similarly, institutions providing microfinance services could cover their various costs by charging their customers the necessary interest and commissions.

\textbf{Subsidized Loan Programs} The government low-interest loan programs (with part of the loan being interest free) that are part of the ANSEJ, ANGEM and CNAC schemes do not seem to be an obstacle to developing microfinance where interest is charged to cover expenses, since these three government schemes are aimed at different segments of the market.
They are used to finance business start-ups with medium-term and long-term loans, following a loan application procedure, and they provide several months of support for entrepreneurs. In contrast, the loans offered by microfinance systems are available rapidly, but for short terms. They are used more to finance the working capital needs or rapidly depreciated equipment purchases of existing businesses.99

IV.4. Credit Reporting Agencies and Deposit Insurance Systems

Credit reporting agencies and deposit insurance systems are helpful, but costly, additions to microfinance.

**Credit Reporting Agencies** The development of negative or positive credit reporting can play an important role in preventing excessive indebtedness and fighting check kiting. It could also help eliminate defaulting borrowers from the financing system.

OMC 03-11 calls for a credit reporting system to be set up at the Bank of Algeria, with a central credit register and a central default register.100

The **central credit register** is responsible for centralizing data on all bank loans and providing information to lenders on request about the level of indebtedness of all loan applicants. Banks and finance companies are required to file reports on all loans over DZD 2 million granted to and used by the same borrower.101

The **default register** is responsible for centralizing data on all payment incidents, including loan defaults and dishonored checks. The register’s database is updated by means of payment incident reports filed by financial intermediaries. Banks are required to file such reports.

The cost of running the registers is borne by banks and finance companies. However, the threshold reporting amount is high enough to exclude substantial numbers of small loans to craft workers, merchants, farmers and payroll employees.102

**Deposit Insurance System** The Bank of Algeria has established a deposit insurance system by setting up a bank deposit insurance company in which all banks are required to hold shares.103 The company receives a levy on bank deposits of up to 1 percent.104 The company will indemnify depositors for up to DZD 600,000,105 thereby providing low-income depositors with good protection of their savings.

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99 They also enable borrowers to obtain loans on a recurring basis.

100 OMC 03-11, article 98. The Bank of Algeria shall organize and run a central credit register called “centrale des risques”, which shall be responsible for collecting from each bank and finance company the names of borrowers, the nature and cap on loans granted, the amount of loans disbursed and the collateral obtained for each loan. Banks and finance companies shall be required to join the central credit register. They must provide the central credit register with the information cited in paragraph 1 of this Article. The Bank of Algeria shall send each bank and finance company the data collected about their customers on request.

In compliance with Article 62 of said Order, the Council shall establish the regulations on the organization and operation of the central credit register and its financing by banks and finance companies, which shall cover only direct costs.

The Bank of Algeria shall organize a central credit register and a central default register.

101 Instruction 70/92, Articles 1 and 7, supplemented by Instruction 07/05 of August 11, 2005.

102 The current threshold reporting amount is DZD 2 million, or approximately USD 26,660.

103 OMC 03-11, Article 118; Regulation 04-03 of March 4, 2004 on the bank deposit insurance system.

104 OMC 03-11, Article 118 paragraph 2.

105 The rate generally ranges between 0.25 percent and 0.35 percent per year.

106 Regulation 04-03 of March 4, 2004 on the bank deposit insurance system, Article 8.
IV.5. Tax Rules for Different Legal Forms

Algeria’s tax rates fall within the average range, with the possibility of obtaining tax breaks under the terms of the Investment Code.

A rapid comparison of taxation shows the differences between joint-stock companies (SPAs), NGOs (non-profit associations), mutual financial systems (co-operatives), and government institutions. However, these differences are not meaningful at present, since the bodies that benefit from tax breaks are not involved in microfinance in competition with potential joint-stock companies.

The general rules set out in the Investment Code provide for some tax breaks for investment. There are even more attractive tax exemptions for “investments in areas where development requires a special contribution from the government” and “investments of special interest for the national economy.”

Therefore, tax expenses cannot be seen as an obstacle in urban areas, as long as lenders are free to set lending rates. In more difficult areas with greater poverty, rural areas with lower population densities and isolated areas, use should be made of the tax exemptions available under the Investment Code.

IV.6. Legal and Tax Provisions Relating to Credit and Recourse for Lenders

The development of microfinance involves huge numbers of transactions relating to savings, loans, and the associated financial services. The multiplication of such transactions could be seriously hindered if regulations set requirements that are disproportionate to the small amounts involved in each transaction.

Stamp Duty and Registration Fees For systems providing small loans to very small enterprises, meeting the requirement that tax stamps be affixed to each page of a loan agreement, and that a registration fee be paid, and that tax stamps be used for each monthly cash repayment, would involve considerable expense for tax stamps and be very costly in terms of management expenses and human resources. The large-scale application of this tax system would seriously hamper the development of microfinance and loans for very small enterprises. It would also be extremely cumbersome for the tax authorities to administer.

The technical procedures of the direct debit system could be simplified for lending banks, which could have borrowers sign standing orders for direct debits from their bank or postal checking accounts. This would enable large-scale use of this means of payment and help reduce the already high intermediation cost of microfinance.

There also seems to be some uncertainty with regard to jurisdiction in the system of liens and seizure of funds held on accounts, or even other seizures, set out in Articles 121 et seq. of OMC 03-11. It would be very helpful to strengthen this system and make it more secure to prevent a multiplication of ineffective recourse procedures for lenders and overloading the court system.

Non-profit associations are not normally subject to tax on profits. The regulations for Credit Unions are currently being drafted. However, cooperatives and mutual societies have traditionally enjoyed tax exemptions under the terms of Order 72-23, Article 6 on the general rules for cooperatives, and under Articles 136 and 138 of the General Tax Code. Government schemes are subsidized and their borrowers enjoy tax breaks, but these schemes operate in a different segment of the market from microfinance.

Investment Code, Article 10.
Annex D: Improvements to Lenders’ Rights and Means of Recourse to Promote Microfinance

IV.7. Summary of Legal and Regulatory Obstacles

Order 03-11 on Currency and Credit contains no obstacles to the development of microfinance. However, a number of other legal and regulatory issues could hamper such development. There are two particular problem areas:

- **Credit Regulations** The provisions dealing with registration of loan agreements and affixing tax stamps, the procedures for partial transfer of interest, the legal costs of enforcing claims, and the uncertainty regarding the priority of credit institutions’ claims are all inappropriate for microfinance. They are likely to give rise to substantial costs for lenders and place an excessive burden on the tax authorities and the court system.

- **Anti-Money Laundering Laws** The provisions of the anti-money laundering laws as they apply to small-value transactions need to be re-examined. This is particularly true of customer identification requirements, record retention requirements, and suspicious transaction reporting requirements.

V. Recommendations for Developing Microfinance

The prospects for the development of inclusive financial systems in Algeria are very attractive, given the very favorable overall economic context and the inadequacy of the current system.

The government has a key role to play in strengthening the financial sector, especially in implementing actions that fall outside the scope of private-sector investment and concern public services and national planning and development. Its actions could take the form of:

- Contracts with Algérie Poste to keep “unprofitable” outlets open in poor areas and to upgrade its technical capacities;
- Promotion of cooperative finance, to supplement the IFAD program, with training and investment in financial transparency;
- Financing for capacity building in the government financial sector to supplement the European Union MEDA program;
- Tax exemptions for opening new branches in unserved areas, under the terms of the Investment Code.  

Today, the government is genuinely interested in developing microfinance and it favors the creation of one or more new institutions. This interest is fully in line with that of international public-sector and private-sector investors and is likely to give rise very soon to the creation of new credit institutions to provide financing primarily for the vast sector of very small enterprises.

However, development of microfinance in Algeria will require the adoption of winning strategies and the elimination of some legal and tax obstacles that are incompatible with the harmonious development of such systems.

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109 More specifically in the high plateau area and in certain wilayas that have inadequate banking services.

110 Especially the Ministry of Financial Reform, which has sponsored this mission, as well as the Ministry of Postal and Telecommunications Services (supervisory authority for Algérie Poste), the Ministry of Agriculture (supervisory authority for CNMA) and even the Oil Ministry (hypothetical project to set up credit unions).
V.1. Five Institutional Models for Developing Microfinance

After consulting with the supervisory authorities and the Deputy Minister for Financial Reform, the mission selected five ways of developing microfinance in Algeria. They are not mutually exclusive and it is up to the various players concerned to combine them or work with some of them.

**Finance Companies with a Microfinance Lending Policy** This solution is a realistic one in financial terms. The minimum capital requirement is affordable for potential investors. It would make it possible to provide loans to very small craft and merchant enterprises, and even farming enterprises in areas where microfinance is least developed. This would accentuate the work already being done by the financial industry to finance the purchase of consumer durables. In this respect, specialist investors such as PROCREDIT, ACCION, MICROCRED, and LFI could contribute to the creation of such institutions in Algeria.

The main obstacles to this type of solution are anti-money laundering laws and the legal and tax requirements relating to loan agreements.

In the medium term, such institutions could serve several hundreds of thousands of customers, primarily in urban and suburban areas. Their lending would focus primarily on financing the business activities of merchants, craft workers, and service providers, and consumer loans, including home improvement loans and appliance loans. In economic terms, such institutions would cover the market from the informal sector to small business enterprises.

**An Example from Eastern Europe: the PROCREDIT Microfinance Institution**

**Procredit Ukraine**: Procredit Ukraine is a finance company that was set up in 2002 by the German Procredit operator, with backing from the IFC and KfW. At December 31, 2005, Procredit’s capital stood at USD 17 million and it had more than USD 130 million in assets. ROE stood at 9.6 percent and the portfolio of arrears over 30 days is less than 3 percent. Procredit had 25,000 low-income customers, 226 loan officers and USD 22 million in outstanding loans in 2005.

**Variant: Partnership between Algérie Poste and One or More Finance Companies**

Rather than setting up its own network of branches to provide customer services, the overall strategy of a finance company specializing in loans to very small enterprises could be to delegate this function (along with some of the accounting function) to Algérie Poste under a partnership similar to the one established with CNEP Banque for housing loans.

Such a partnership would increase the non-financial revenues of Algérie Poste and optimize the use of its network of branches for critical economic development action. It would also lower the lenders’ transaction costs.

The finance company would then only need the premises necessary for the work of its loan officers, without the constraints of providing customer services.

**ICCI Bank in India, Partnerships and Technology to Help the Poor**

ICCI is the largest government bank in India. In less than four years, it has gained more than a million microentrepreneur customers and built up a loan portfolio of USD 250 million. ICCI has developed a specialized network of microfinance outlets by setting up branches in Internet cafés in rural areas and by forging partnerships with community associations. ICCI also uses new

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113 MICROCRED: website [www.microcred.org](http://www.microcred.org).
technology to reduce transaction costs and manage credit risk with credit cards and a credit scoring system for low-income borrowers. It is preparing to deploy a network of robust ATMs that cost less than USD 1,000 each.

ICCI also entered a partnership with Indian Post in 2001 to develop savings products.

**Retail Bank for Low-Income Customers** Microfinance means supplying all types of financial products and not just loans for very small enterprises. This calls for the creation of a bank, which is a realistic solution in the medium term, given the need to raise substantial capital.

Such a move should be encouraged in the medium term. It could take the form of a change in the authorization of a finance company that wishes to offer savings products and manage means of payment.

Such a bank could achieve major leverage by relying on a network of service outlets through existing merchants and other physical infrastructures already in place. This would probably require special new regulations for banking transaction intermediaries.

### An Asian Example of Microbanking: BRI in Indonesia

BRI (Bank Rakyat Indonesia) is one of the five government commercial banks in Indonesia and the largest microfinance institution in the world. The bank’s microfinance division has more than 4 million active borrowers and 30 million depositors. It works with a network of 4,000 specialized branches throughout the entire country. At the end of 2005, the bank had total assets of USD 13.26 billion. Total customer deposits stood at USD 10.48 billion. Outstanding loans to microenterprises and small enterprises accounted for 87 percent of the bank’s total outstanding loans. The proportion of non-performing loans stands at 1.55 percent for microlending and 16.93 percent for loans to large enterprises. BRI’s microenterprise and small enterprise business is gaining ground on its shrinking business with large enterprises.

**Source:** BRI Full Year 2005 Financial Result

### NICT, E-banking and Microfinance

This solution would remove the need for major investments to set up branch networks. This solution is possible because of the cell phone network that reaches much of the population, with some 14 million subscribers, and covers most of the country, including all municipalities with populations over 2,000, and government plans to extend coverage to municipalities with populations of under 2,000.

The general idea is to use the existing cell phone architecture as a medium for communication with the bank and a communication tool, and even for making direct payments between customers, using phones as an electronic purse and an electronic payment terminal.

This solution raises a number of technical and legal issues that need to be resolved. Therefore, it is a solution for the medium term and the mission recommends that the monetary authorities and regulators investigate it.

### An Example of a Cell Phone-Based System in the Philippines

A partnership between funds transfer companies, non-financial retail service companies, and a cell phone company uses text messages to carry out funds transfers.

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115 It was founded on December 16, 1895, with the objective of serving working people. The bank went public in 1946 under the name BRI.

The transmission mechanism is the SMART Communications cell phone network. Subscribers can activate a virtual bank account service called Smart Money. Smart Money can operate as a purely virtual bank account or it can be linked to the customers’ real bank accounts and a MasterCard debit card. It both cases, the service is operated through the customer’s cell phone.

For international funds transfers, the sender gives the funds in cash to a funds transfer company affiliated with SMART in their country of residence. The funds transfer company uses its cell phone to give SMART the order to transfer the funds from its virtual bank account to that of the beneficiary. The beneficiary then receives a text message on their cell phone saying that the funds transfer has been completed.

Depending on whether the beneficiaries have a Smart Money debit card or virtual bank account, they can withdraw the transferred funds from ATMs operated by the SMART partner banks or obtain cash payments from a network of paying agents. This network includes fast-food restaurants, service stations, pawnbrokers, large shopping malls, and Smart bill payment centers.

Ongoing negotiations between Smart and microfinance institutions have shown how critical it is for paying agents to offer a large number of outlets.

**Cooperative Financial Networks** Cooperative financial networks are a good fit with Algeria’s social and economic context and they can meet the needs of populations in rural areas. However, international experience has shown that the soundness of such systems depends on setting up large organized networks and working from the outset to avoid a proliferation of independent cooperative bodies.

Plans to extend the CNMA network with 40 new local cooperative credit banks in four wilayas should be explored and encouraged, while taking care to:

- **Strengthen** the capacities of the new banks, especially in terms of information and management systems, human resources, and capital;

- **Structure** the network to ensure the coherence of the network of regional cooperative banks (CRMA), CNMA, CNMA Banque and the local cooperative credit banks;\(^{117}\)

- **Resolve governance problems**, and reconcile local cooperative self-management thinking with the technical nature of banking.\(^{118}\)

There is certainly room for a second network of general purpose credit unions alongside CNMA. It would not restrict itself to customers with payroll jobs, but provide services for low-income populations that do not currently have access to banking services.

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\(^{117}\) The difference in authorizations should be settled between the local cooperative credit banks, which were primarily set up to take deposits and grant loans, which could be authorized as credit unions, and the regional cooperative farm credit banks involved in the insurance business. Should other cooperative credit banks be set up as legal entities with the regional cooperative farm credit banks and then be authorized as credit unions? Should the local cooperative credit banks become members of the regional cooperative farm credit banks, resulting in a three-tier network according to the model developed between 1995 and 1999? Or should they become direct partners in the national cooperative farm credit bank, thus making them parallel structures to the regional cooperative farm credit banks? And/or direct partners in CNMA Banque, which would become the bank at the head of the network? These questions should be discussed to find a coherent institutional structure, albeit an original one.

\(^{118}\) For this purpose, we think that the NGO Touiza, which is the only known civil society structure to provide support services and loans to very small enterprises, could provide helpful services for such networks with regard to considering social links, dissemination and teaching of cooperative values, interfacing between what would be a large structure and the grassroots citizens whose thinking does not always follow that of the financial community.
V.2. Recommended Regulatory Changes

The mission started with the postulate that microfinance systems should be covered by ordinary banking legislation, i.e. OMC 03-11, in order to build inclusive financial systems, rather than make special arrangements in derogation of the law for marginalized population groups. Therefore, the regulatory approach consists of seeing whether current regulations will permit such development and, if not, what changes are required.

The development of microfinance in Algeria could be encouraged primarily by changes to **credit regulations**. Provisions on registering loan agreements and affixing tax stamps, the procedures for partial transfer of interest, and the legal costs of enforcing claims are all inappropriate for microfinance lending transactions.

Also, in the medium term and long term, it would be helpful to investigate new regulatory approaches regarding:

- **Anti-money laundering legislation**, to ensure that it does not hamper the development of microfinance;
- **Prudential and Accounting Standards**, where the risk is that standards are too loose, particularly with regard to asset impairment and provisions for arrears;
- **Taxation**, because it would be helpful to use the provisions of the Investment Code to promote microfinance, which would be especially helpful for extending such services to poor areas, including certain rural areas, isolated areas, and structurally poor areas;
- **Other Provisions**, which refers to elements of the legal framework that could be optimized to facilitate the extension of financial services in Algeria. This primarily refers to future legal provisions relating to e-banking using cell phone networks, service providers (banking transaction intermediaries) that handle funds on behalf of credit institutions, and credit unions (for which regulations are now being drafted).

* *

CGAP is willing to share its expertise in the promotion and regulation of microfinance with the Deputy Minister for Financial Reform and to provide specific assistance with these issues. CGAP can also organize exchange visits with regulators in other countries in Eastern and Central Europe, Latin America, and South Africa for the staff of the Deputy Minister for Financial Reform to familiarize them with existing microfinance models and the most relevant regulations.

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119 Except for mandatory reserves maintained on deposit at the Bank of Algeria, which pay 6.5 percent interest. It would be helpful not to increase the cost of borrowing through this type of regulatory measure, for example, by (1) exempting credit unions from reserve requirements and (2) by allowing banks not to count small-value loans (under DZD 600,000 or DZD 1 million, for example) as assets to be backed by deposits.

120 By defining development zones, for example.
## ANNEXES

### Annex A: Meetings with Persons and Institutions

<table>
<thead>
<tr>
<th>Date and time of meeting</th>
<th>Name</th>
<th>Position</th>
<th>Employer</th>
</tr>
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<tbody>
<tr>
<td>02/11 / 3:00 pm</td>
<td>Mr. Ait Saadi</td>
<td>Adviser</td>
<td>Cabinet of the Deputy Minister for Financial Reform</td>
</tr>
<tr>
<td>02/11 / 4:00 pm</td>
<td>Mr. Bendjaballah</td>
<td>Adviser</td>
<td>Cabinet of the Deputy Minister for Financial Reform</td>
</tr>
<tr>
<td>02/12 / 8:30 am</td>
<td>Ms. Fatma Sediaoui</td>
<td>General Manager</td>
<td>ANGEM</td>
</tr>
<tr>
<td></td>
<td>Mr. Hadi Aouidjia</td>
<td>Research and Planning Manager</td>
<td>ANGEM</td>
</tr>
<tr>
<td></td>
<td>Mr. Zaidi Belaslouni</td>
<td>Financial and Accounting Manager</td>
<td>ANGEM</td>
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<td></td>
<td>Mr. Farid Houari</td>
<td>Communications Adviser</td>
<td>ANGEM</td>
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<tr>
<td></td>
<td>Mr. Mohamed Belgadi</td>
<td>Guarantee Fund Manager</td>
<td>ANGEM</td>
</tr>
<tr>
<td>02/12 / 10:00 am</td>
<td>Mr. Makhloufi</td>
<td>Cabinet Director</td>
<td>Cabinet of the Deputy Minister for Financial Reform</td>
</tr>
<tr>
<td></td>
<td>Mr. Loukam</td>
<td>Adviser</td>
<td>Cabinet of the Deputy Minister for Financial Reform</td>
</tr>
<tr>
<td>02/12 / 11:00 am</td>
<td>Mr. Farid Tiaiba</td>
<td>Secretary General</td>
<td>Currency and Credit Council</td>
</tr>
<tr>
<td>02/12 / 2:30 pm</td>
<td>Mr. Djamel Madani</td>
<td>General Manager</td>
<td>CNMA</td>
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<td></td>
<td>Mr. Saouli</td>
<td>General Manager</td>
<td>CNMA</td>
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<td></td>
<td>Mr. Ahmed Amrouch</td>
<td>General Manager</td>
<td>CNMA</td>
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<tr>
<td>02/12 / 5:30 pm</td>
<td>Mr. Pierre Gueneau</td>
<td>Manager UGP</td>
<td>UE - UGP/Banque</td>
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<td></td>
<td>Mr. Abdelhadi Sahraoui</td>
<td>Financial Expert</td>
<td>UE - UGP/Banque</td>
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<td></td>
<td>Mr. Abdelkader Gliz</td>
<td>Financial Expert</td>
<td>UE - UGP/Banque</td>
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<td></td>
<td>Mr. Robert Adam</td>
<td>Training Manager</td>
<td>UE - UGP/Banque</td>
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<td>02/13 / 9:00 am</td>
<td>Mr. Boualem Djebbar</td>
<td>General Manager</td>
<td>FGAR</td>
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<tr>
<td>02/13 / 10:30 am</td>
<td>Mr. Ali Younsioui</td>
<td>Secretary General</td>
<td>Ministry of Post and Telecommunications</td>
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<td></td>
<td>Mr. Abdenacer Sayah</td>
<td>Postal Financial Services Manager</td>
<td>Ministry of Post and Telecommunications</td>
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<td>Mr. Kebal</td>
<td>Finance and Resources Manager</td>
<td>Ministry of Post and Telecommunications</td>
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<td>02/13 / 2:00 pm</td>
<td>Mr. Mustapha Tamalghahet</td>
<td>Manager</td>
<td>General Directorate of the Treasury—Ministry of Finance</td>
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<tr>
<td></td>
<td>Mr. Baddache</td>
<td>Deputy Manager for Government Institutions</td>
<td>General Directorate of the Treasury—Ministry of Finance</td>
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<td>02/13 / 4:30 pm</td>
<td>Mr. Abdelhamid Maiza</td>
<td>General Manager</td>
<td>TOUIZA</td>
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<td></td>
<td>Mr. Mhand Kasmi</td>
<td>General Manager</td>
<td>TOUIZA</td>
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<td>Mr. Belaid Mustapha</td>
<td>General Manager</td>
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<td>Ms. Assia Feriel Selhab</td>
<td>General Manager</td>
<td>TOUIZA</td>
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<tr>
<td>02/13 / 6:00 pm</td>
<td>Mr. Rochdi Khellal</td>
<td>Central Manager of the 35/50-Year Scheme</td>
<td>CNAC</td>
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<td></td>
<td>Mr. Khela Bensoltane</td>
<td>Deputy Manager</td>
<td>CNAC</td>
</tr>
<tr>
<td>02/14 / 9:00 am</td>
<td>Ms. Ghania Houadria</td>
<td>General Manager</td>
<td>La Poste</td>
</tr>
<tr>
<td>02/14 / 2:00 pm</td>
<td>Mr. Abderrahmane Benkhalifa</td>
<td>Secretary General</td>
<td>ABEF</td>
</tr>
<tr>
<td>02/14 / 3:30 pm</td>
<td>Mr. Joao Gabriel De Sentana Correia</td>
<td>Lead Adviser, Head of Operations</td>
<td>EU, EC Delegation</td>
</tr>
<tr>
<td></td>
<td>Ms. Sophie Vuillemin</td>
<td>Expert</td>
<td>EU, EC Delegation</td>
</tr>
<tr>
<td>02/15 / 9:00 am</td>
<td>Mr. Boudjemaa</td>
<td>Deputy General Manager</td>
<td>BADR Bank</td>
</tr>
<tr>
<td>02/15 / 10:00 am</td>
<td>Mr. Achour Aboud</td>
<td>Deputy General Manager</td>
<td>Crédit populaire d’Algérie</td>
</tr>
<tr>
<td></td>
<td>Ms. Malika Zitouni</td>
<td>Deputy General Manager</td>
<td>Crédit populaire d’Algérie</td>
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<td>Ms. Hassani</td>
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<td></td>
<td>Mr. Ouknine</td>
<td>Deputy General Manager</td>
<td>Crédit populaire d’Algérie</td>
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<td>Mr. Bounab</td>
<td>Deputy General Manager</td>
<td>Crédit populaire d’Algérie</td>
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<td>02/15 / 11:00 am</td>
<td>Mr. Alain Boujouil</td>
<td>Personal Banking Manager</td>
<td>Société Générale Algérie</td>
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<td>02/15 / 2:30 pm</td>
<td>Mr. Rachid Bouzar</td>
<td>Development and Innovation Manager</td>
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<td></td>
<td>Mr. Mabrouk Belal</td>
<td>Research Manager</td>
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<tr>
<td>02/15 / 4:00 pm</td>
<td>Mr. Mohamed Zemouli</td>
<td>Adviser to General Management</td>
<td>Banque de Développement Local</td>
</tr>
<tr>
<td></td>
<td>Mr. Benabbes</td>
<td>Housing and Special Credit (Microloans) Manager</td>
<td>Banque de Développement Local</td>
</tr>
<tr>
<td></td>
<td>Mr. Belaid</td>
<td>Finance Manager, Industry Research Manager</td>
<td>Banque de Développement Local</td>
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<tr>
<td>02/15 / 8:00 pm</td>
<td>Mr. Rai Mokrétar-Kharoubi</td>
<td>Deputy General Manager</td>
<td>ALC</td>
</tr>
<tr>
<td>02/16 / 9:00 am</td>
<td>Mr. Said Dib</td>
<td>Banking Regulation and Authorization Manager</td>
<td>Bank of Algeria</td>
</tr>
<tr>
<td>02/16 / 10:00 am</td>
<td>Mr. Loic Le Pichoux</td>
<td>General Manager</td>
<td>CETELEM Algérie</td>
</tr>
<tr>
<td>02/16 / 1:30 pm</td>
<td>Mr. Abdelmadjid Baghdadi</td>
<td>General Manager</td>
<td>ANDI</td>
</tr>
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<td></td>
<td>Mr. Youcef Heumissi</td>
<td>General Manager</td>
<td>ANDI</td>
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<td></td>
<td>Mr. Amor Lazouni</td>
<td>General Manager</td>
<td>ANDI</td>
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<tr>
<td></td>
<td>Mr. Djamel Zeriguine</td>
<td>General Manager</td>
<td>ANDI</td>
</tr>
<tr>
<td>02/16 / 2:00 pm</td>
<td>Mr. Djamel Bessa</td>
<td>CEO</td>
<td>CNEP Banque</td>
</tr>
<tr>
<td>02/17 / 2:00 pm</td>
<td>Mr. Daniel Jaunis</td>
<td>Resident Expert</td>
<td>MEDA Program “Technical Assistance for Algérie Poste”</td>
</tr>
<tr>
<td>02/18 / 9:30 am</td>
<td>Mr. Karim Djoudi</td>
<td>Deputy Minister</td>
<td>Ministry of Finance</td>
</tr>
</tbody>
</table>
Annex B: Prudential Standards and Microfinance

The prudential standards that apply to banks and finance companies today are not an obstacle to the development of inclusive financial systems in Algeria, even though such standards could increase their costs.

On the other hand, tightening up certain very relaxed standards for this sector could contribute to more secure development.

PRUDENTIAL STANDARDS AND THE BANKING SECTOR

1. Solvency Ratio (Cooke ratio)\textsuperscript{121}

The solvency ratio for banks and finance companies (Cooke ratio of net capital to net weighted assets set at 8 percent or more) is not a problem for microfinance systems, which often have a much higher solvency ratio. As a general rule, the standard ratio for microfinance systems is at least 10 percent, and it excludes most of the collateral put up by borrowers.

2. Risk Concentration Ratio\textsuperscript{122}

There are two risk concentration ratios. The first restricts individual exposures and the second restricts large exposures. The sum of exposure to a single borrower\textsuperscript{123} must not be more than 25 percent of the institution’s capital. The sum of the institution’s large exposures (more than 15 percent of its capital) must not be more than ten times its capital.

The fact is that microfinance involves such a low concentration of credit risk that it could comply with any conventional risk concentration ratio used in banking.

The standard for microfinance is generally much lower, at around 1 percent of the lender’s capital (e.g. in Bolivia).

3. Liquidity Ratio

There is no short-term liquidity ratio of liquid assets to payables. Such a ratio would be helpful for ensuring the liquidity of inclusive financial systems, where the bulk of funds come from customers’ sight deposits.

4. Gap Management Ratio\textsuperscript{124}

The gap management ratio for the matching of long-term assets to permanent resources is 60 percent, which allows for a maturity gap of 40 percent.\textsuperscript{125} Most of the items included in the calculation have maturities of five years or more.\textsuperscript{126}


\textsuperscript{122} Instruction 04-99 of August 12, 1999 and Instruction 74-94 of November 29, 1994.

\textsuperscript{123} See the notion of group in Article 2 of Instruction 74/94.

\textsuperscript{124} Regulation 04-04 of July 19, 2004, which sets the ratio called “coefficient of capital and permanent resources”; stable resources / long-term assets \(\leq\) 60 percent. Most of the items taken into account have maturities of five or more years.

\textsuperscript{125} It would also seem that CNEP Banque has the right to count 20 percent of its sight deposits as term deposits maturing at more than five years (statistical stability), which enables it to increase the leverage.

\textsuperscript{126} Regulation 04-04, Articles 7 and 8.
As a general rule, microfinance involves very few long-term assets of five years or more, since most of the lending is for terms of three months or 12 to 18 months. Even though the bulk of resources are short-term sight deposits, this ratio does not seem to be a problem for such lending.

However, it should be stated that Algeria’s prudential standards regarding liquidity and gap management are much less strict than the usual industry standards. Furthermore, the Algerian financial sector currently has excess liquidity. If this excess were to disappear and if regulations were tightened up, asset-liability management would be more difficult, but we do not feel that this would hinder the development of inclusive financial systems.

5. Ban on Lending to Bank Officers, Shareholders and Affiliates.

OMC 03-11 strictly bans any bank or finance company from lending to its officers, shareholders, or affiliates (including its statutory auditors). This standard is not a problem for the development of microfinance by joint-stock companies lending to customers outside of the institution.

On the other hand, this standard is not compatible with cooperative operations that lend to members, meaning cooperative banks and finance companies. Therefore this standard should not apply to credit unions. Would not such a ban also be a problem for CNMA Banque, which is a subsidiary of CNMA and the regional cooperative farm credit banks? More specifically, can CNMA Banque lend to CNMA and the regional cooperative farm credit banks? The same comment would apply to a bank that holds shares in a finance company. Are intragroup financial transactions possible? It would be helpful for the competent authorities to explain these issues in order to clear up any regulatory uncertainty.

6. Reserve Requirements (This provision applies only to banks, meaning institutions that take deposits from the public)

Deposit-taking institutions are required to deposit some of their savings on accounts with the Bank of Algeria. The reserve requirements vary over time and range between 0 percent and 15 percent. The rate fell from 4 percent to 3 percent, then went back up to 4.25 percent, and then 6.25 percent on December 11, 2002. There is reason to think that reserve requirements will continue to rise, rather than fall, in view of the abundance of banking liquidity and the rapid rate of economic growth.

Reserves are maintained and reported on a monthly basis. A 10-percent penalty is applied for failing to maintain reserves. The reserves may earn interest at a rate that does not exceed the Bank of Algeria’s average refinancing rate. The interest rate may be 0 percent.

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127 OMC 03-11, Article 104. A bank or finance company shall be prohibited from granting loans to its officers, its shareholders, or undertakings in the same group as the bank or the finance company. For the purposes of this Article officers shall mean founders, directors, representatives and persons with power of signature. The spouses and first-degree relatives of officers and shareholders shall be subject to the same prohibition.

128 On the other hand, this standard would not be compatible with cooperative operations that lend to their members, meaning cooperative banks and finance companies. Therefore, it should not be applied to credit unions. Would not such a ban also be a problem for CNMA Banque, which is a subsidiary of CNMA and the regional cooperative farm credit banks? More specifically, can CNMA Banque lend to CNMA and the regional cooperative farm credit banks? The same comment would apply to a bank that holds shares in a finance company. Are intragroup financial transactions possible? It would be helpful for the competent authorities to explain these issues in order to clear up any regulatory uncertainty.

129 Regulation 04-02 of March 4, 2004 setting the conditions for maintaining mandatory reserves; Instruction 04-04 of May 13, 2004.

130 Bank of Algeria Instruction 06-2002 of December 11, 2002 amending Instruction 01-2001 on reserve requirements. The interest rate paid on mandatory reserves later dropped from 2.5 percent in 2002 to 1 percent as per Instruction 01-05 of January 13, 2005.
The Bank of Algeria reports reserve violations and the sanctions applied to the Banking Commission. The Banking Commission may also exempt a bank from maintaining reserves for a period of up to six months in accordance with predetermined criteria.

This system is costly because lending rates must be increased to maintain the overall profitability of the institution when there is no longer excess liquidity in the banking system, and the interest rates on consumer loans and loans for very small enterprises are already high.

7. Retained Earnings Reserves

Financial regulations do not stipulate any requirement to put retained earnings into reserves. On the other hand, the Commercial Code requires joint-stock companies to set aside a small reserve.

A requirement that a large proportion of earnings (30 percent to 50 percent at least) be put into reserves would be helpful for cooperative systems, since their core capital is made up of non-distributable reserves. Such a standard would facilitate their capitalization.

Credit institutions are required to maintain a fund for general banking risks on their performing assets. The annual amount is 1 percent and it may reach a total amount of 3 percent.

8. Foreign Exchange Coverage Ratios

These ratios apply only to banks and finance companies that are authorized intermediaries trading on the interbank foreign exchange market. Such banks and finance companies are required to comply with the following two ratios at all times:

Coverage per Currency

\[ R_i : \frac{\text{Foreign exchange position (long or short)}}{\text{Net capital}} \leq 10\% \]

Coverage for All Currencies:

\[ R_i : \frac{\text{The greater of the sum of long and short positions on all currencies}}{\text{Net capital}} \leq 30\% \]

A long foreign exchange position means that assets exceed liabilities and a short position means the opposite.

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131 Commercial Code, Article 721. Voiding all decisions to the contrary, limited liability companies and joint stock companies shall allocate one twentieth of their net annual income, less any prior losses, to a reserve fund called the legal reserve. This allocation shall no longer be mandatory, once the reserve reaches one tenth of the nominal share capital.

132 Instruction 74-94 of November 29, 1994 on the prudential rules for the management of banks and finance companies, Article 17. This fund, which is counted as equity, should eventually be eliminated, if Algeria opts to adopt IAS and IFRS.

133 Instruction 78/95 of December 26, 1995.

134 Banks and finance companies are required to make daily reports to the DGRFE summarizing their foreign exchange positions in each currency. They are also required to file monthly reports with the “Foreign Exchange Position Monitoring” Directorate General.

135 For the items making up foreign exchange positions, see Articles 6, 7, and 8 of Instruction 78-95 of December 26, 1995.
Normally, there is no foreign exchange risk under our working hypothesis. The only foreign exchange transactions are those involving funds transfers and they are to be completed by the end of the day under stabilized exchange rate systems, such as the one that Algérie Poste has accepted up till now in its dealings with Western Union.

9. **Ratio for Unsecured Foreign Exposures**\(^{136}\)

This ratio concerns banks and finance companies that are authorized intermediaries for foreign trade transactions. This type of authorization is granted by the Bank of Algeria.

Banks and finance companies are required to ensure that their foreign exposures are never more than four times greater than their net capital.

Since microfinance systems are for local customers dealing in local currency, this ratio does not pose any problem.

10. **Equity Holdings**\(^{137}\)

Banks and finance companies may acquire and hold equity holdings. The limit on such holdings by banks will be set by the Currency and Credit Council. This seems to imply that the limit will not apply to finance companies.

As part of its supervision and control, the Banking Commission may extend its investigations to equity holdings and financial dealings between companies that directly or indirectly control a bank or a finance company or their subsidiaries. Under the terms of international agreements, these investigations may be extended to the foreign subsidiaries and branches of Algerian companies.

These standards would not hinder the development of microfinance in any way.

**PRUDENTIAL STANDARDS AND CREDIT UNIONS**

The monetary authority, which will be in charge of determining the requirements for creating and operating credit unions, must take into account three distinctive characteristics of cooperative banking networks that stem directly from their pyramid structure, as stipulated by the 2006 budget act. These characteristics have an impact on prudential standards.

The first characteristic is the large number of financial flows within each group, with cash centralization, refinancing for local banks, and cooperative development, guarantee, and solidarity funds. This characteristic means that prudential supervision of the umbrella structure must be carried out on a consolidated basis.

The second characteristic is that the bank at the head of a cooperative network naturally has extremely concentrated risk exposure to its partners and shareholders, which are the local credit unions.

The third characteristic is the financial solidarity within the network, which means that certain ratios applied to each individual local credit union or even each branch could lead to inextricable situations that a commercial bank engaged in the same activity would not


\(^{137}\) Articles 74 and 110 of OMC 03-11 of August 26, 2003.
encounter. This solidarity also means that the ratios would not be relevant when applied to individual credit unions or branches.
Annex C: Financial Transparency Standards for Banks and Finance Companies

1. Exposure Monitoring

Every bank or finance company must:
- Categorize its claims on customers by the degree of risk incurred on performing and non-performing assets;
- Set aside provisions for credit risk;
- Ensure proper accounting treatment of interest on non-performing assets.

1.1. Performing Assets

Claims where full and timely collection seems certain are deemed to be performing assets. These claims are generally on businesses where:
- Audited financial statements produced within the last 18 months and interim statements produced within the last three months show that the financial situation is sound;
- Management and business prospects are satisfactory;
- The volume and type of loans received are compatible with the needs of their main line of business.

Riskless claims are also included in this category:
- Claims guaranteed by the government, a bank or a finance company or an insurance company;
- Claims collateralized by deposits with a bank or a finance company or by any other financial asset that can be liquidated without affecting its value.

A general provision of 1 percent must be set aside for performing assets annually up to a total of 3 percent. The provisions are reserves that count as capital.

1.2. Non-Performing Assets

Category 1: Potentially Troubled Loans
Category 1 includes claims where full collection still seems certain, despite arrears that remain within reason. These claims are generally on enterprises that show at least one of the following characteristics:
- There are problems in the activity sector in general;
- The enterprise’s financial situation and outlook are deteriorating, which may compromise its ability to make interest and principal payments;
- Some of the enterprise’s loans are unpaid or show interest arrears of more than three months but less than six months.

Provisions of 30 percent must be set aside for these claims, less any collateral obtained.

Category 2: Very Poor Risks
Category 2 includes claims with at least one of the following characteristics:
- Claims where full collection seems very uncertain and claims on enterprises where the situation makes losses look likely;
- Interest and principal payment arrears of six months to one year.

Provisions of 50 percent must be set aside for these claims, less any collateral obtained.

**Category 3: Impaired Assets**
Category 3 covers claims that should be written off. However, banks and finance companies should exhaust every means of recourse to enforce such claims first.

Provisions of 100 percent must be set aside for these claims, less any properly valued collateral obtained.

Off-balance sheet exposures should be categorized in the same manner and the same provisions should be set aside as for non-performing assets.

2. **Financial Statements**

Published financial statements must include a balance sheet, off-balance sheet items, an income statement, and notes to the financial statements.

Authorized institutions must publish their annual financial statements in the Official Gazette of Legal Notices. Financial statements must be published within thirty days of their approval by the competent body.

The Banking Commission has the sole right to grant exceptional extensions of this deadline for up to six months on the strength of the elements that banks and finance companies present to support their applications for such extensions.

Banks and finance companies are required to file an original copy of their annual financial statements with the Banking Commission prior to publication.

The Banking Commission has the power to require that the institutions concerned publish corrections in the event that inaccuracies or omissions are discovered in the published statements.

3. **Internal Control**

Banks and finance companies are required to draw up two reports at least once a year. The first report deals with their internal control system and the second report deals with measuring and monitoring their risk exposure.

The first report contains:
- Lists of the investigations carried out and the main conclusions;
- Material changes made during the year under review;
- Application of procedures for new activities;
- The main actions planned.

The second report deals with the main conclusions drawn from measurement of risk exposures, credit risk selection and a review of the profitability of credit transactions. Both reports are filed with the Banking Commission and made available to the statutory auditors.

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139 OMC 03-11 of August 26, 2003, Article 103 and Regulation 92-09 of November 17, 1992.
4. **Statutory Auditors**

Authorized banks and finance companies are required to appoint at least two statutory auditors. In addition to their ordinary legal obligations, under the terms of Act 91-08 of April 27, 1991, for example, statutory auditors auditing a bank or finance company are required to:

- Immediately notify the Governor of the Bank of Algeria of any violation committed by the undertaking being audited in accordance with the said Act and with the regulations implemented for the purposes of the Act;
- Give the Governor of the Bank of Algeria a special report on their audit; such reports must be given to the Governor within four months of the end of each financial year;
- Present a special report to the annual general meeting on any facilities that the undertaking has granted to any of the natural or legal persons stipulated in Article 104 of this Order; The reports for branches of foreign banks and finance companies are to be presented to their representatives in Algeria;
- Give the Governor of the Bank of Algeria a copy of the reports presented to the undertakings annual general meeting.

These statutory auditors are also subject to supervision by the Banking Commission, which has the power to impose sanctions on them, without prejudice to disciplinary or criminal proceedings.

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141 Articles 100 to 102 of OMC 03-11 of August 26, 2003; Act 91-08 of April 17, 1991 and Presidential Order 96-136 of April 15, 1996.
Annex D: Improvements to Lenders’ Rights and Means of Recourse to Promote Microfinance

1. Loan Contracts

It seems that stamp duty must be paid to make contracts between credit institutions and borrowers legally valid. The cost is DZD 40 for the first page of a contract and DZD 20 for each additional page, including pages of general and specific terms. Special dispensation can be obtained to make monthly or quarterly payments of stamp duty, which would reduce the human resources cost of managing these payments for microfinance systems, but such dispensation is not granted automatically.

Registration is also required to give contracts a fixed date. This means making a trip to the local tax office of the undertaking issuing the contract. The registration fee is DZD 500, with a DZD 500 penalty for failing to register on time.\(^\text{142}\)

Furthermore, loan repayments made in cash are subject to stamp duty equal to 1 percent of the amount paid. Most merchants, craft workers, and farmers make their loan payments in cash.

This system is very costly in terms of human resources, and this cost is passed on the borrower through fees. It is also costly in absolute terms for small loans, where it can sometimes lead to extra costs of DZD 30,000 to DZD 50,000. If loan contracts with very small enterprises and consumers undergo exponential growth, tax offices are likely to be overloaded by the administrative treatment involved.

We recommend abolishing stamp duty on contracts and cash repayments related to loans granted by credit institutions, in view of the modest impact that tax stamps have on the government’s tax revenues,\(^\text{143}\) compared to the inconvenience caused for lending institutions and, indirectly, for their customers. We also recommend setting up an automated free registration system that merely requires detailed lists of contracts to be filed with the relevant tax offices.

2. Debt Collection

The direct debit system is governed by Articles 543 bis 21 and 543 bis 22 of the Commercial Code.\(^\text{144}\) The Bank of Algeria centralizes the direct debit system. We understand that, for the time being, the institution holding the customer’s account, which would be Algérie Poste in the vast majority of the cases, holds a paper debit order signed by the customer.

This system would prove to be cumbersome for microfinance institutions that wished to implement an automated repayment system for loans using direct debits from a bank or postal checking account, rather than requiring their customers to make a trip to a branch at least once a month to make cash payments. For the lending process to operate smoothly, the lending institution should make sure that the direct debit order is properly filled out. Sending large numbers of direct debit orders would entail pointless additional costs.

It would be helpful to simplify the procedure, for example by allowing the credit institution that issues the request for a direct debit to keep the order signed by the debtor and to

\(^{142}\) By the end of the month following that in which the contract was signed, which means less than two months.

\(^{143}\) One million ten-page loan contracts would generate revenue of DZD 720 million.

\(^{144}\) Articles inserted by Act 05-02 of February 6, 2005 amending and supplementing the Commercial Code.
produce it in the event of a dispute. **An electronic transmission system**, like the system used for electronic check clearing, should also be looked into.

This would mean **switching from a system based on prior authorizations to one based on a posteriori control**.

**Banks’ Dual Privileges** Articles 121 to 124 of OMC 03-11 grant a number of privileges to banks and finance companies. These concern the **collateral** provided to credit institutions (priority claim to assets on accounts, coming right after claims of employees, the Treasury and social security funds) and recourse, since, in principle, a simple registered letter is enough to attach a lien,\(^{145}\) and the sale of foreclosed collateral or the attribution of foreclosed collateral on accounts can be carried out very simply fifteen days later by means of a petition to the court.\(^{146}\)

However, it seems that some Algerian courts are reluctant to uphold this privileged recourse and that they try to require credit institutions to go back to the procedures stipulated under ordinary law.\(^{147}\)

If case law were to move in this direction it could have substantial consequences for the **debt collection proceedings** of institutions granting consumer loans and loans to very small enterprises on a massive scale. It would lead to a situation without precedent in Algeria in terms of a **multiplication of unprofitable collection expenses** for credit institutions and **overloading of the courts** with vast numbers off debt collection proceedings involving very small amounts.\(^{148}\)

\(^{145}\) OMC 03-11, Article 121.

\(^{146}\) OMC 03-11, Article 124.

\(^{147}\) See “La saisie-arrêt bancaire en Algérie est-elle régie par le droit commun ou par un droit spécial ?”, *El Watan Economie* dated February 13 to 19, 2006, pages 10-11, by Hideur Nasser, Chairman of the Legal and Tax Research Commission of ABEF.

\(^{148}\) **Legal expenses** can total several thousand dinars. Bailiff fees are set by Executive Order 2000-77 of April 5, 2000 (JORADP 20, dated April 9, 2000); a seizure of assets can cost a few hundred to a few thousand dinars. Some fees are proportional to the amount of the claim, while other fees are fixed. In principle, the proportional fees are paid by the debtor and deducted from the seized assets (the fee schedule is set according to brackets, as follows (amounts in DZD): 10 percent for 0 to 3,000, 8 percent for 3,001 to 6,000, 6 percent for 6,001 to 12,000, 4 percent for 12,001 to 25,000, 2.5 percent for 25,001 to 60,000, 2 percent for 60,001 to 175,000, 1.5 percent for 175,001 to 350,000, 1 percent for 350,001 to 600,000, 0.5 percent for 600,001 to 1.2 million, 0.25 percent for 1.2 to 2.4 millions, 0.2 percent for 2.4 to 4.8 millions or more (Order 91-70, Article 19, as amended by Order 2000-77, Article 3). **Lawyers’ fees** should also be added. In principle, they are paid by the credit institution and they more than offset any profit to be gained from legal proceedings initiated to collect a few hundred thousand dinars.
Annex E: Relevant Legislation and Regulations

Legal Persons
Civil Code Articles 416 to 449 (partnerships)
Commercial Code Articles 544 et seq. (commercial companies)
Order 72-23 of June 7, 1972 on general cooperative bylaws and pre-cooperative structures.
Act 90-31 of December 4, 1990 on non-profit associations

Taxation and Investment
General Tax Code
VAT Code
Investment Code

Conduct of Financial Business
Order 03-11 on Currency and Credit
2006 Budget Act, Article 81 on Credit Unions
Act 2000-03 of August 5, 2000 on the general rules governing postal and telecommunications services

Money Laundering
Act 05-01 of February 6, 2005 on preventing and fighting money laundering and terrorist financing
Executive Order 02-127 of April 7, 2002 on the creation, organization, and operations of the Financial Intelligence Unit (CTRF)
Executive Order 06-05 of January 9 2006 on the form, layout, content, and acknowledgement of receipt for suspicious transaction reports.

Online Information and Statistics
Algérie Poste www.poste.dz
ANSEJ www.ansej.org.dz/
Bank of Algeria www.bank-of-algeria.dz
Banque de Développement Local www.bdl.dz
Caisse Nationale d’Allocation Chômage www.cnac.dz/cnac-anem/accueil_telech.htm
Conseil National Economique et Social www.cnnes.dz
Caisse Nationale de la Mutualité Agricole www.cnma.dz
Journal Officiel www.joradp.dz
Lexalgeria www.lexalgeria.net
Office National des Statistiques www.ons.dz
Annex F: Bibliography and Terminology

AFD (TFP-IFI), *Eléments du rapport de mission Algérie—Secteur Financier*, October 2005


CGAP-AFD, *La bancarisation de masse en Algérie, compte-rendu de mission, 10-18 février 2006*, PPT 16 slides


NAED / GRET, *Quelle stratégie d’appui au développement de la microfinance en Algérie pour NAED?* April 21, 2003, PPT 20 slides

NAED / BDO Sofirom, "*Offrir un environnement réglementaire pour la microfinance en Algérie*", September 2003, 35 pages

Note: the following exchange rates are used in this report:
1 EUR = 90 Algerian dinars (DZD)
1 EUR = 1.2 USD
1 USD = 75 DZD

Acronyms:

<table>
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<tr>
<th>Acronym</th>
<th>Definition</th>
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<tr>
<td>AFD</td>
<td>Agence Française de Développement [French Development Agency]</td>
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<tr>
<td>ATM</td>
<td>Automatic Teller Machine</td>
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<td>CMC</td>
<td>Conseil de la Monnaie et du Crédit</td>
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<td>CMP</td>
<td>Caisse Mutuelle de Proximité</td>
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<td>CNES</td>
<td>Conseil National Economique et Social de la République Algérienne Démocratique et Populaire</td>
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