



University  
of Glasgow

<https://theses.gla.ac.uk/>

Theses Digitisation:

<https://www.gla.ac.uk/myglasgow/research/enlighten/theses/digitisation/>

This is a digitised version of the original print thesis.

Copyright and moral rights for this work are retained by the author

A copy can be downloaded for personal non-commercial research or study,  
without prior permission or charge

This work cannot be reproduced or quoted extensively from without first  
obtaining permission in writing from the author

The content must not be changed in any way or sold commercially in any  
format or medium without the formal permission of the author

When referring to this work, full bibliographic details including the author,  
title, awarding institution and date of the thesis must be given

Enlighten: Theses

<https://theses.gla.ac.uk/>  
[research-enlighten@glasgow.ac.uk](mailto:research-enlighten@glasgow.ac.uk)

**THE STRUCTURE AND CONTROL OF PUBLIC ENTERPRISES  
IN ALGERIA : PROBLEMS AND REFORMS**

By

**CHERIF HAMZAOU**

A thesis submitted to the University of Glasgow, Department of  
Political Economy, in fulfilment of the requirements for the  
Degree of Doctor of Philosophy in Economics.

September 1988

© Cherif Hamzaoui 1988

ProQuest Number: 10970847

All rights reserved

INFORMATION TO ALL USERS

The quality of this reproduction is dependent upon the quality of the copy submitted.

In the unlikely event that the author did not send a complete manuscript and there are missing pages, these will be noted. Also, if material had to be removed, a note will indicate the deletion.



ProQuest 10970847

Published by ProQuest LLC (2018). Copyright of the Dissertation is held by the Author.

All rights reserved.

This work is protected against unauthorized copying under Title 17, United States Code  
Microform Edition © ProQuest LLC.

ProQuest LLC.  
789 East Eisenhower Parkway  
P.O. Box 1346  
Ann Arbor, MI 48106 – 1346

### ACKNOWLEDGEMENTS

It is with a sense of deep gratitude that I wish to acknowledge my debt to Professor Malcolm MacLennan under whose supervision the work was done. His interest, encouragement, advice and numerous corrections have been invaluable in the completion of this work.

A number of organisations gave me access to data held by them. I would like to thank all the staff who helped me in the following organisations: SNS, Ministry of Planning, Library of the Ministry of the Light Industries, the National Bank of Algeria.

I would like to thank Mrs Terry Campbell for typing the thesis at a great speed.

I remain deeply indebted to my wife, Seyda, my son and daughter, Moslih and Wiam, for their inspiration and sacrifices during the course of this study.



## TABLE OF CONTENTS

	Page
Acknowledgements	ii
Table of Contents	iii
List of Tables	ix
List of Figures	x
Abstract	xii

## PART ONE

### THE ALGERIAN DEVELOPMENT CONTEXT AND ITS IMPACT ON THE ORIGINS AND EVOLUTION OF THE PUBLIC ENTERPRISE

#### CHAPTER ONE: INTRODUCTION

1 THE PROBLEM	2
2 METHODOLOGICAL ISSUES	5
2.1 The Concept of the Public Enterprise	5
2.2 The Approach	5
2.3 Sources of Data	6
2.4 The Conceptual Framework	6
2.4.1 The linkage between objectives and control mechanisms	7
2.4.2 The methods and extent of control	9

#### CHAPTER TWO: THE ORGANISATION OF ALGERIAN INDUSTRY

1 THE GENESIS OF THE PUBLIC ENTERPRISE	13
1.1 The Colonial Inheritance	13
1.2 The Emergence of Modern Industry and the Role of the State in Independent Algeria	15
1.2.1 The early forms of state intervention (1962-1965)	15
1.2.2 The high point of 'étatisme' (1966-1971)	19
1.2.3 The period 1971-1980	24
2 THE IMPORTANCE OF THE PUBLIC SECTOR ECONOMY	25
3 THE ORGANISATIONAL STRUCTURE OF ALGERIAN INDUSTRY	27
3.1 The Concentration of Algerian Public Enterprises	28
3.2 Forms of Enterprise Concentration	33
3.2.1 Diversification	33
3.2.2 Vertical integration	35

3.2.3 Expansion into social functions	37
3.3 Causes of Enterprise Concentration	37
4 THE PLACE OF THE PUBLIC ENTERPRISE IN THE ADMINISTRATION OF INDUSTRY	42
4.1 The Sectoral or Technical Ministries	44
4.2 The Central Planning Office	45
4.3 The Banks and Financial Institutions	47
4.4 The Ministry of Trade	48
5 PUBLIC ENTERPRISE ORGANISATION	49
5.1 The Mechanics of the System	50
5.2 The Operation of the System in Practice	53
6 CONCLUSION	56

## PART TWO

### THE STRUCTURAL AND FUNCTIONAL PROBLEMS OF PUBLIC ENTERPRISES

#### CHAPTER THREE: PROBLEMS OF INDUSTRIAL ORGANISATION

1 INTRODUCTION	62
2 THE ECONOMIC AND WELFARE IMPLICATIONS	64
2.1 Lack of Specialisation	65
2.2 Monopoly Power of Enterprises	70
3 MANAGERIAL IMPLICATIONS OF ENTERPRISE CONCENTRATION	77
3.1 Introduction	78
3.2 The Organisational Structure of the Public Enterprise	80
3.3 Management Weaknesses Associated with this Type of Organisation	85
3.3.1 Centralisation of decisions	85
3.3.2 Departmental coordination	88
3.3.3 Internal controls	90
4 IMPLICATIONS OF ENTERPRISE CONCENTRATION FOR SOCIAL CONTROL	94
4.1 Effects of Concentration on Central Control	95
4.2 The Impact of Large Size on Worker Participation	95
5 CONCLUSION	99

#### CHAPTER FOUR: PLANNING OF ENTERPRISE INVESTMENT

1 THE INVESTMENT CRISIS	104
1.1 Low Rates of Project Installation	107
1.2 Serious Financial Problems	108
1.3 Low Efficiency of Investment	108
1.4 Inter-Sectoral Imbalances	109

1.5	Excessive Dependence on Foreign Technology	110
2	THE PLANNING AND CONTROL OF ENTERPRISE INVESTMENT	111
2.1	The Institutional Framework and Its Development	111
2.2	The Planning Process	113
2.3	The Approval of Public Investment	116
2.3.1	Inadequate feasibility studies	117
2.3.2	Inadequate investment preparation	119
2.3.3	The absence of decision criteria	120
2.3.4	Delays in the approval procedure	123
2.3.5	Cuts in capital expenditures	124
2.4	The Financing of Enterprise Investment and Bank Control	125
2.4.1	Inadequate financing patterns	127
2.4.2	The distorted role of credit	128
2.4.3	The criticisms of the enterprise	129
2.5	The Forms of Project Implementation	130
3	CONCLUSION	133
CHAPTER FIVE: THE PLANNING AND CONTROL OF ENTERPRISE IMPORTS		
1	INTRODUCTION	137
2	THE ORGANISATION OF STATE MONOPOLY OVER IMPORTS	138
2.1	The Institutional Framework and Its Evolution	138
2.2	Some Organisational Features	140
3	THE PLANNING AND CONTROL OF ENTERPRISE IMPORTS	144
3.1	The Elaboration of the Enterprise Import Plan	145
3.2	Implementation of Enterprise Import Plans and Bank Controls	151
4	THE MACRO-ECONOMIC DISTORTIONS	158
4.1	Balance of Payments Problems	158
4.2	Increased Dependence on Foreign Advisory Services	161
4.3	External Debt Problems	163
5	CONCLUSION	164
CHAPTER SIX: REGULATION OF ENTERPRISE PRODUCTION OPERATIONS		
1	INTRODUCTION	167
2	ENTERPRISE COMPETENCE IN DECISION MAKING	168
3	PUBLIC ENTERPRISES: DUTY AND PURPOSE	176
4	CENTRAL CONTROL OVER PRODUCTION OPERATIONS	178

4.1 Planning and Control in Practice	179
4.2 Contents of the Plan	181
5 THE ECONOMIC AND FINANCIAL PROBLEMS OF ALGERIAN INDUSTRY	189
5.1 Poor Financial Performance	189
5.2 Underutilisation of Productive Capacity	189
5.3 Low Factor Productivity and Growth	191
5.4 Market Coverage	193
5.5 The Effects of the Distorted Price System	194
5.6 The Effects of Inadequate Performance Indicators	197
6 CONCLUSION	203
CHAPTER SEVEN: REGULATION OF WAGES AND INCENTIVES IN PUBLIC ENTERPRISES	
1 INTRODUCTION	207
2 WAGES AND SALARIES	207
2.1 Wage Distortions	210
3 ECONOMIC INCENTIVES TO EMPLOYEES	216
3.1 The Premium Systems	217
3.2 The Profit-Sharing Scheme	220
4 CONCLUSION	228
CHAPTER EIGHT: FINANCIAL PROBLEMS OF PUBLIC ENTERPRISES	
1 THE FINANCIAL PROBLEMS OF THE PUBLIC ENTERPRISE	231
1.1 The Problem of Deficits	231
1.2 The Debt Problem	233
1.3 Deteriorating Working Capital Position	236
2 THE CAUSES OF THE FINANCIAL PROBLEMS	238
2.1 The Bureaucratic View	240
2.1.1 Excessive investment costs	240
2.1.2 Excessive operating costs	241
2.1.3 The impact on the exchequer	244
2.2 The Industrialist's View	245
2.2.1 Cost of national gestation	245
2.2.2 Price fixing procedures	246
2.2.3 Taxes and levies	247
2.2.4 Costs of inadequate financing patters	248
2.2.5 Costs of bureaucracy and institutional inertia	249
2.3 The Official Position	251
3 CONCLUSION	253

### PART THREE

#### THE 1980 REFORMS OF THE PUBLIC ENTERPRISES

CHAPTER NINE:	THE REORGANISATION OF THE NATIONAL PUBLIC ENTERPRISES	
1	INTRODUCTION	259
2	THE OBJECTIVES OF THE REORGANISATION SCHEME	260
3	GUIDELINES FOR THE RESTRUCTURING OPERATION	262
4	THE OPERATION OF THE GUIDELINES IN PRACTICE	264
5	THE NEW NATIONAL ENTERPRISES	266
6	IMPLICATIONS OF THE RATIONALISATION OF ENTERPRISE STRUCTURES	272
6.1	Inter-enterprise Cooperation	272
6.2	Relationships with the Central Administrations	276
6.3	The Autonomy of the Operating Units	279
7	CONCLUSION	283
CHAPTER TEN:	MEASURES AIMING AT INCREASING THE FINANCIAL AUTONOMY OF THE PUBLIC ENTERPRISE	288
1	THE FINANCIAL REHABILITATION SCHEME	289
1.1	The Objectives of the Financial Rehabilitation Scheme	291
1.2	Measures Taken within the Framework of the Financial Rehabilitation Scheme	293
1.2.1	Structural and management changes	294
1.2.2	Financial measures	294
1.2.3	Settlement of inter-enterprise debts	295
1.2.4	Reactivation of the indirect economic and financial lever	296
1.3	The Implementation of the Financial Rehabilitation Scheme	296
2	REFORM OF THE PRICE SYSTEM	297
3	CHANGES IN THE PATTERNS OF FINANCING ENTERPRISE INVESTMENTS	302
3.1	The Reactivation of the Role of Credit	304
3.2	Self-financing in Public Enterprises	310
4	REFORMS IN ENTERPRISE TAXATION	314
5	CONCLUSION	316

CHAPTER ELEVEN: THE CENTRALISATION MEASURES INTRODUCED BY THE 1980 ECONOMIC REFORMS	
1	INTRODUCTION 322
2	PLANNING OF PRODUCTION ACTIVITIES 323
	2.1 The Objectives of the Reform 323
	2.2 The Construction of the Production Plan 327
	2.3 The Contents of the Production Plan 328
3	PLANNING OF ENTERPRISE INVESTMENTS 335
4	PLANNING OF ENTERPRISE IMPORTS 342
5	REGULATIONS OF WAGES AND INCENTIVES WITHIN PUBLIC ENTERPRISES 350
CHAPTER TWELVE: CONCLUSIONS 357	
APPENDIX xv	
BIBLIOGRAPHY xxiv	

**LIST OF TABLES**  
**(A) in the text**

		Page
CHAPTER TWO	Table 1 Contribution of the public sector to GDP	26
	Table 2 Distribution of employment by type of enterprise in Algerian industry in 1979	28
	Table 3 Contribution of national public enterprises to sales in manufacturing industry in 1979	30
	Table 4 The size distribution of public industrial enterprises	30
	Table 5 The number of operating units per enterprise in 1979	31
	Table 6 Size distribution of state-owned enterprises in centrally-planned economies of Eastern European countries and Algeria	32
	Table 7 Structural changes in light industries between 1962 and 1979	39
CHAPTER THREE	Table 1 Composition of the work force in the CVI complex	89
	Table 2 Workers' involvement in various types of decisions	97
CHAPTER FOUR	Table 1 Ratio of actual to planned investment in public sector industry (1967-1978)	107
	Table 2 The efficiency of capital and output per worker in Algerian industry between 1966 and 1977	109
	Table 3 Cuts in capital expenditures requested by enterprises in the heavy industry sector (1970-1977)	125
	Table 4 Changes in the forms of import of technology	132
CHAPTER FIVE	Table 1 Composition of Algerian foreign trade	138
	Table 2 Trends in Algeria's balance of current operations between 1967 and 1978	159
	Table 3 Share of raw materials and semi-manufactures in total imports of goods (1973-1979)	160
	Table 4 Costs of technical assistance over the period 1973-1978	162
	Table 5 Trends in Algeria's external debt (in billions of US\$)	164
CHAPTER SIX	Table 1 Trends in capacity utilisation in Algerian industry (1978-1980)	190
	Table 2 Labour and capital productivity in Algerian industry (1967-1982)	192

CHAPTER SEVEN	Table 1	The range of average (monthly) wage earnings of various skill-categories in 1978	211
	Table 2	Price and wage changes in Algeria between 1970-1977	215
	Table 3	Profits distributed in selected enterprises in 1975	226
	Table 4	Growth in the number of strikes in the public sector between 1969 and 1980	227
CHAPTER EIGHT	Table 1	Deficits of selected public enterprises (1973-1978)	232
	Table 2	Size and structure of public sector industry debt (end of 1978)	235
	Table 3	Working capital and bank overdrafts of five public enterprises in 1973 and 1978	236
	Table 4	Running expenses in five public enterprises as a percentage of turnover (Dec 1978)	241
CHAPTER NINE	Table 1	The sectoral distribution of the public industrial enterprises	267
	Table 2	Size distribution of public enterprises in terms of their contribution to employment in 1984	268
	Table 3	The location of public industrial enterprises (1984)	269
	Table 4	Reallocation of higher management personnel previously employed in the head offices of 9 public enterprises	271
CHAPTER ELEVEN	Table 1	A simplified structure of an enterprise plan	330
	Table 2	Share of industry in public sector investment expenditures (1979-1984)	335

(B) in the appendix

Annexe no 1	The main activity coverage of the national industrial enterprises	xvii
Annexe no 2	The reorganisation of public industrial enterprises	xxiii



## LIST OF FIGURES

			Page
CHAPTER TWO	Figure 1	The dual character of the Algerian public enterprises	54
CHAPTER THREE	Figure 1	The organisation structure of SONATRACH before the reform	82

## ABSTRACT

The Algerian public enterprise which, since 1965, had benefitted from considerable political and financial support of policy makers came under closer scrutiny and, indeed, severe criticism in the late 1970's. In 1980 the central authorities decided to reorganise these public firms. This reorganisation was part of a wider reform programme aimed at restructuring the administration and management of the public sector as a whole. The reforms stressed the need for greater decentralisation in decision making and a greater degree of financial autonomy for the public enterprises. The public enterprises were broken up into smaller, more specialised units in order to allow a more rational use of resources and to reduce the widespread inefficiency and waste in the public sector. In addition to these structural changes the finances of the public enterprises were overhauled. A number of measures to strengthen their financial autonomy were proposed. These included the deregulation of prices, the reactivation of the role of credit, the introduction of self-financing for minor investments.

The aim of this thesis is twofold: first, to provide a critical review of the problems which the reform programme was introduced to solve; and then to examine the reform measures and how they have been designed and carried out in practice. The study has been divided into three main parts.

Part One is the background of the study. It presents a general picture of the Algerian economic development context and the impact it has had on the origins and evolution of the public enterprises. It also examines the main structural features of Algerian industry, the internal organisation of enterprises and their place in the planning

system.

The seven Chapters forming Part Two present the main elements of the crisis which was shaking the public sector in the pre-reform period. Chapter Three investigates the various distortions associated with the inefficient organisation of Algerian industry and the internal structure of the enterprises. Chapters Four, Five, Six and Seven deal with the problems involved in the planning and control of various aspects of the enterprises' operations: investment, imports, production, wages and incentives. The argument set out in these Chapters is that in the pre-reform period the central authorities lacked an appropriate economic and financial framework for regulating the behaviour of enterprise managers, and for integrating macro and micro-economic interests. They demonstrate that the centralised system of planning and control was responsible for the serious conflicts of interest which to an increasing extent emerged between the state and the enterprises; and that these conflicts were at the root of the economic and financial distortions. Chapter Eight can be considered as a conclusion to Part Two. It provides empirical evidence about the financial problems of the public enterprises and summarises the various interpretations put forward by the main interest groups within the larger public sector to explain the fundamental causes of these problems.

Part Three deals with the details of the reform package itself and how it has been implemented in practice. Chapter Nine reviews the structural changes brought about and analyses their implications for both the central planner and the enterprises. This Chapter concludes that the reorganisation of the public enterprises has brought to the fore several theoretical and practical problems, which if not appropriately tackled, will cause the reforms to fail. Chapters Ten

and Eleven treat the functional aspects of the reform. Chapter Ten examines in detail the financial rehabilitation scheme for the public enterprises and the measures adopted to increase the financial autonomy of the new firms. Chapter Eleven concludes that despite these decentralisation measures, the powers of the enterprises in the planning system are still very restricted. Their operations are still carried out within the framework of a centralised planning system which controls the bulk of their decisions and resources.

Finally, the conclusion attempts to explain the inconsistencies of the reform measures and puts forward a number of hypotheses about the ways in which these inconsistencies may be resolved in the future.

**PART ONE**

THE ALGERIAN DEVELOPMENT CONTEXT AND ITS IMPACT ON THE ORIGINS  
AND EVOLUTION OF THE PUBLIC ENTERPRISE

## CHAPTER ONE

### **INTRODUCTION**

#### **1 THE PROBLEM**

Despite the key position the public enterprise occupies in the Algerian economy, until recently very little was actually known about the way it was organised and run and how its operations were articulated with those of the central administration. Formally, public enterprise activities are incorporated into a centralised system of planning and control. However, research designed to improve understanding of the public enterprise and the functioning of planning as a whole has until very recently been almost non-existent in Algeria. Academic economists involved in research and teaching have also made little contribution to the study of the micro-economics and management of the public enterprise. The absence of systematic studies on public enterprises in Algeria is due to a number of factors.

It may, first, be attributed to the priority which the Algerian strategy of socio-economic development gave to a policy of centrally-controlled, rapid industrialisation and economic growth. Under this strategy, the public enterprises were considered mainly as instruments for implementing the strategy and, consequently, their operations were subordinated to the national economic plan. In their concern to achieve rapid industrialisation through a system of priority planning the central planners paid little attention to the problem of bringing about a rational allocation of resources; nor indeed to micro-economic processes and adjustments. The implication of this is that most economic research dealt extensively with the Algerian model of national economic development and the industrialisation strategy in its various aspects (choice of technology, dependency, production,

distribution ). The public enterprises were not considered an interesting area for research and investigation and, until recently, little attention has been paid to the problems and costs involved in managing an enterprise.

Another reason for this lack of attention lies in the fact that in Algeria the early socialist theorists and nationalists saw the nationalisation of production facilities as a way to achieve greater equity and macro-economic objectives. They did not, however, devote any serious consideration to the problems of managing the enterprise once nationalised. Rather, they assumed that society would be transformed into a giant organisation for cooperative production in which everyone would work in accordance with the national plan.

Finally, the problem of access to data in public enterprises is another contributing factor. Much of the information concerning public enterprise operations was confidential; this was a major hindrance to the development of a body of knowledge about their functioning.

However, with the shift in economic policy and the economic reforms introduced in the early 1980's the 'black box' has been opened and serious discussion of the problems of the public enterprises is now on the agenda. As a result some information, patchy and fragmentary, it is true, has been made available to researchers and the public. The present thesis is a modest contribution to this debate.

This study is devoted entirely to the public enterprise. However, since the public enterprise in Algeria operates so firmly within the framework of a centralised planning system which determines to a significant degree its objectives, operations and the resources available to it, analysis of its performance and the actual behaviour of its management must necessarily take into consideration its

interactions with various levels of the planning hierarchy. This issue lies at the root of the familiar but complex problem of central control of public enterprises.

The thesis deals with the management systems in public sector enterprises and their evolution over the period since independence. More specifically it propounds the argument that the crude administrative methods of planning and control used in the 1970's have become inappropriate for managing and directing a rapidly growing and complex economy. They have created serious conflicts between the state and the enterprises and have produced severe macro and micro-economic imbalances. The restructuring of the public enterprises carried out in the early 1980's was essentially a reaction against the distortions created by the existing system and a comprehensive effort to remove them. The reform operation can be seen as an attempt by the central authorities to resolve two fundamental problems. The first is the increasing efficiency of the Algerian economy since the early 1970's. The second, which is closely related, is to reverse the spread of organisational pluralism, which has manifested itself in the expanding role of the public enterprises and the sectoral ministries with a consequent loss in centralised direction and control. Both factors have produced an increasingly sub-optimal structure.

Before entering into the subject matter of the thesis a number of methodological points need to be made. These relate to the concept of public enterprise, the approach to be followed in the study, the sources of data and the conceptual framework within which this study in applied economics will be carried out.



## 2 METHODOLOGICAL ISSUES

### 2.1 The Concept of the Public Enterprise

As used in this study, the term 'public enterprise' refers to an organisation whose primary function is the production and sale of goods and/or services, and which is fully owned by the government or other government-controlled agencies. Joint-venture undertakings with foreign capital fall outside the scope of this study. The study will be concerned exclusively with national public industrial enterprises which encompass all the major large-scale industries. The term 'national' covers only those enterprises which are attached to a sectoral ministry; local industries are, therefore, omitted. The term 'industrial' refers specifically to enterprises under the administrative authority of the three industrial ministries: light industries, heavy industries, and energy and petrochemical industries. The discussion generally excludes enterprises belonging to other sectors of the economy.

### 2.2 The Approach

The study is divided into three parts. The First Part provides a historical survey of the development of the public enterprises in Algeria and sets out the complex institutional framework within which the enterprises operate which will be a central element in later analyses of the enterprises' operations. The Second Part of the study treats the problems faced by the enterprises between 1965 when Colonel Boumedienne came to power and 1980, the year of the reform. The Third Part analyses the reforms as they have been developed and implemented between 1980 and the present time. A short concluding section presents an interim judgement on the still evolving reform programme.

### 2.3 Sources of Data

The study has employed both secondary and primary sources of data. The secondary sources included: available literature and statistical handbooks, journals, official newspapers, some unpublished documents of unclassified nature, seminar papers and conference communications held at various universities, published theses, government reports, legislation (ie. decrees, circulars) and internal instructions of ministries. These sources formed the main data base for Parts One and Two. In writing Part Three, which deals with the reform measures and their implementation, the author employed, in addition to the above sources, data he collected from various interviews conducted in the summer of 1984 and 1985. Two months of extensive interviewing was concentrated primarily at the level of the enterprise (National Steel Enterprise) and the bodies that supervise them: the sponsoring ministry (Light Industries), the central planning office (Ministry of Planning), banks (National Bank of Algeria). Some discussions were also arranged with academics. The primary objective of the interviews was to assess the response of various interest groups to the reform measures, how they perceived them and how they felt about the chances of their implementation in practice.

Interviews with enterprise managers were normally conducted at a very senior level. The aim here was to see whether the reform measures introduced had had any significant impact on their management and planning methods.

### 2.4 The Conceptual Framework

This section sets out some of the conceptual tools which will be employed in the analysis of the working of the control system in Algeria and its problems observed. The problem of government control over the operations of public enterprises has been approached from a

variety of angles. Two approaches are of particular relevance to this study. These relate to the objectives assigned to the enterprises and the extent and methods of control. Each approach throws the light on a particular aspect of the control issue.

#### 2.4.1 The linkage between objectives and control mechanisms

Among the most important aspects of the public enterprises' activities is the choice of objectives to pursue. In Algeria public enterprises are called upon to pursue a mix of objectives, both commercial and non-commercial. These can include such diverse goals as profitability, redistributing income, subsidising certain priority groups, sectors and regions, earning foreign exchange, generating employment and strengthening the power base of the ruling class. Having such a plethora of objectives can be equivalent to having no objective, and management is often left free to pursue its own interests or constantly shifting its objectives in an incoherent mix. A major cause of the problems with public enterprises' operations is, therefore, the absence of clearly defined, consistent, and precisely communicated objectives for the managers of enterprise. This void is likely to dampen managerial incentives and to have adverse effect on the efficiency of the internal operations of the enterprise; it may also result in actions being taken by managers of public enterprises which are contrary to national interests.

While the problem of multiple objectives is certainly real, it is also very frequently mis-stated. As Leonid Hurwicz has pointed out, the real difficulty is not one of multiple objectives but of 'plural principals', i.e. the involvement of individuals or groups with different aims (1). The problem is who in the government should determine their objectives. The simplest private firm faces a conflict between

reducing inputs and costs while increasing output and revenues. Various programming techniques are available for handling more complex cases and for establishing weights (prices) to allocate resources so as to maximise objective functions involving multiple objectives. The real difficulty begins when individual preferences differ. For a private enterprise, this is a comparatively minor issue since the shareholders are likely to have similar trade-offs that can be captured in the objective of profit. But similar agreements on the weights of the various conflicting objectives are much more difficult to achieve in the public sector. Thus, the Ministry of Finance may be primarily interested in profitability, the Ministry of Labour in employment, the politicians in low prices, and so on. The problem of multiple objectives boils down in the final analysis to one of plural principals which in turn is a measurement problem (2). It is the difficulty of giving quantitative expression to objectives that makes the problem of control more complex.

Aharoni faces this problem explicitly by asking whether the public enterprise is 'an agent without a principal' (3). He argues that the traditional theories are mistaken in viewing government as the shareholding, goal-setting principal and the enterprise as the executing agent. In his view, the real principal is the public at large, for whom a variety of agents act, including various political parties, government ministries, and public enterprises. Each agent's view of the public interest is influenced by its own individual and group interests, thus diminishing its ability to establish trade-offs on behalf of the public. It is not surprising that public enterprise managers sometimes view themselves as having at least as much of a claim on the goal-fixing function as their erstwhile bureaucratic and political superiors. Under these circumstances, measurement of

managerial performance cannot be gauged because of many conflicting and ill-defined objectives.

To overcome this problem, Aharoni suggests a pragmatic solution in the form of an independent 'goal audit' to provide a periodic public forum for public scrutiny of the decisions and actions of various agents.

#### 2.4.2 The methods and extent of control

The question of who should determine the objectives of the public enterprise is only one component of the system of control of public enterprises. Assuming that this problem is solved and a proxy principal established for the enterprise, there arises the question as to how other decisions should be divided between the government and the enterprise. The optimum pattern of control, if there is such a thing, will vary across activities, across countries and across organisations.

The objective of any control system is to increase management efficiency and concurrently to ensure compliance with the central planners' objectives.

Two types of control systems can be identified. In the first, a number of financial targets are agreed with and assigned to the management of the enterprise. It is then left entirely to the managers to decide on the ways these targets can be achieved. Controls by the central authorities are exercised ex post, and managerial performance is evaluated and rewarded in accordance with those objectives. This is then a completely decentralised system with minimum costs of operation. Obviously, under this model, public enterprise managements have large decision-making powers and responsibilities. The main weakness of this system, however, is that these powers may not be used in the best interest of the community as defined by the government.

At the opposite extreme, a control system might exist in which management must justify every decision, by presenting information on the choices it has made and the alternatives which are available. This appraisal procedure is conducted after the decision-maker has made his choice, but before it is carried out. Obviously, under this centralised system, the decision-making authority of enterprises is very restricted. When there is no parametric management system (ie prices, and other market categories) the enterprises cannot be allowed a wide range of delegated powers since the top policy makers have then no instruments to influence their decisions. Here, the risks of enterprises pursuing their own interests are minimal, assuming, of course, that the management has the information required and is willing to present it to the central planners.

The centralised system presents a number of characteristics which are relevant to the purpose of the present study. First, the costs associated with the operation of the system itself, ie the costs of monitoring managers' behaviour so as to achieve the goals of the national plan may be very high, since effectively there is a duplication of decision-making with the enterprise acting essentially as a preliminary organiser of information. Considerable resources will generally be needed to monitor decisions, collect and transmit information and examine alternatives. Secondly, delays in the implementation of decisions, which the control system might cause, also impose costs and may result in conflicts of interest between the enterprises and the central control agencies.

Other problems involved in such an attempt at detailed control may arise: there is the possibility of the distortion of information, the basic element in the system, by the enterprises; the various control agencies themselves may not have a precise and clear idea of the

objectives pursued by the top policy makers; these agencies may not have the time, the information and the necessary managerial skills to deal with the complex problems involved in controlling and coordinating a rapidly growing industry.

Finally, when the range of powers of an enterprise is limited or unstable, a certain type of management termed the 'administration' of production arises, and undermines the basis of economic calculation in the enterprise which is, in turn, responsible for much of the inefficiency of the public enterprise operations (4). This thesis is supported by many cases of enterprise managers complaining of continual intervention from above. Moreover, the absence of managerial incentives is often attributed to over rigid controls which constrain the ability of managers to exercise their creative talents and adapt the enterprises' operations to market conditions. This type of control system will be referred to very frequently in this thesis under the label 'administrative system of planning and control'.

The conceptual tools briefly developed above will be applied in the discussion which follows of the problems confronting the Algerian public enterprises in actual practice and the efforts made in the controversial reform measures of the 1980's to resolve them.

## Notes to Chapter One

- 1 Discussions at the Second BAPEG Conference on Public Enterprises in Mixed Economy LDCs, April 1980, Boston, United States, quoted by Jones, P Leroy, "Public Enterprise in Less Developed Countries", 1982, Cambridge University Press, New York, p 5.
- 2 Raifa, Howard, "Decision-Making in the State-Owned Enterprises in the Western Economies", 1981, Vernon, R and Aharoni, Y, St Martin's Press, New York, pp 54-62.
- 3 Aharoni, Yair, "State-Owned Enterprises: an Agent without a Principal", in "Public Enterprise in Less Developed Countries", by Je, Leroy, op cit, pp 67-76.
- 4 Zielinski, J G, "Economic Reforms in Polish Industry", 1973, Oxford University Press, London, p 161.



## CHAPTER TWO

### **THE ORGANISATION OF ALGERIAN PUBLIC SECTOR INDUSTRY**

The objective of this Chapter is to give a brief summary of the contemporary industrial scene in Algeria. It sets the stage for a further discussion of the problems and reforms of public sector enterprises in subsequent Chapters. It starts with a brief review of the circumstances which have led to the emergence of the public enterprise in Algeria. It then examines the main structural features of Algerian industry and the place the public enterprise occupies in this structure. It concludes with a brief description of the formal organisational structure of the public enterprise.

#### **1 THE GENESIS OF THE PUBLIC ENTERPRISE**

The genesis of public enterprise and the processes through which major segments of it have emerged in a country have a material impact on the nature of its performance. To understand the process of formation and development of the public sector one needs to understand something of the social and political environment in which it developed.

##### **1.1 The Colonial Inheritance**

State involvement in the economic life of independent Algeria is in part a reaction against several structural legacies of colonial subjugation. In the colonial regime, the entire economy of Algeria was subordinated to the metropolitan authority, France, and all economic activities were so designed as to support the development of the metropolis. Almost all exports went to France which in turn supplied the bulk of Algeria's imports. These were composed mainly of

agricultural products (cereals, wines, citrus fruits, tobacco and garden products). Heavy industry was practically absent and manufacturing mainly concerned with the processing of primary commodities. Local capital remained attached to agriculture and French capital was interested only in mining, banks and commerce. Practically all economic activity and productive enterprises were in the hands of the French colonists and there was virtually no local entrepreneurship.

Moreover, there was an imbalance in regional development with very heavy concentration on the coastal belt. Integration between different sectors of the economy was also weak. For example, in 1954 the industrial sector absorbed only 25 per cent of the value of the local agricultural production and a mere eight per cent of the value of industrial production was directed towards agriculture. The shaping of the structure of the Algerian economy to serve the interests of the metropolis was accompanied by the polarisation of political, social and economic power.

When, in 1962, after a long and bitter struggle, Algeria achieved its independence, the country faced enormous political, economic and social problems. The balance sheet of the war was disastrous: over a million Algerians died; over two million people in rural areas were uprooted from their homes by the French army as part of its pacification programmes and resettled in concentration camps. During the six months before independence some 90 per cent of the European settlers representing almost all the administrators, technicians, teachers, doctors and skilled workers left the country. Factories and shops were closed down and farms were abandoned. This exodus and the massive flight of the private capital from the country paralysed the economy and intensified the already chronic problems of

underdevelopment and underemployment.

The problems inherited from the colonial era had a profound impact on the country's political and economic orientation after independence. There was a general agreement among the nationalists after independence - particularly after 1965 - as to the need for extensive state involvement in the economic life through direct control of the means of production. The choice of the public enterprise as the main agent of development was regarded by the Algerian leaders as the only solution not only to the problem of reconstruction and restructuring the country's economy according to Algeria's needs, but also as a means to achieve its national unity. Some observers felt that the new state had little choice in this respect. The strong sentiment against foreign business, the weakness of the local bourgeoisie together with the populist nature of the anti-colonial struggle left Algeria with only one possible agent of development: the state.

## 1.2 The Emergence of Modern Industry and the Role of the State in Independent Algeria

The processes through which public enterprises came into being in Algeria are part of the wider process of formation of the new independent nation-state. They reflected the different ideas of various social groups within the state-party apparatus concerning the role to be played by this state in the development effort. By and large, this process can be broken down into three distinct historical phases: (1962-1965), (1966-1971) and (1971-1980).

### 1.2.1 The early forms of state intervention (1962-1965)

If the emergence of the public enterprise is recent in Algeria and goes back to the early years of independence, socialist and collectivist ideas are, however, deeply rooted in the pre-independence

period. In fact, the ideologies of nationalism and the state as an agent of change go back to the colonial era. During the war of independence the more activist elements among the nationalists had begun to formulate their ideas about the economic development to be adopted by an independent Algerian state. These were articulated in the Tripoli Programme drawn up at the end of May 1961 (1).

The Programme, drafted by the most influential left wing members of the FLN party, gave priority to the development of the agricultural sector. This was to be achieved by radical land reform measures, the limitation of private property and the collectivisation of the land. According to this document, a reorganisation of the agricultural sector would increase the purchasing power of the Algerian population and create the necessary conditions for an industrialisation that was not oriented towards overseas markets. It favoured the nationalisation of large businesses in all sectors and the adoption of socialism as an ideology and system. In fact, the extension and development of the public sector was identified with the construction of socialism. The programme emphasised the independence of the country economically as well as politically; the umbilical cord with France was to be neatly and decisively severed, and economic sovereignty in the form of Algerian control over Algerian resources and economic life was to be asserted as an integral part of political independence.

This strong paternalistic streak of étatisme found many expressions after independence. It was apparent in the preference for the one party system. In the economic field the case was made for using the public rather than private enterprise as the main agent for development. Foreign private enterprise was more or less ruled out by nationalist sentiment. Indigenous private enterprise was regarded as too weak to tackle the problem of reconstruction. Besides, private

enterprise was dependent upon profits, and the many projects might not yield immediate profits.

The Algiers Charter, a series of texts adopted by the first Congress of the FLN party in the Spring of 1964, went much further in detail and elaboration than the Tripoli Programme. It firmly rejected the capitalist path of development in favour of a socialist approach which is defined not only in terms of the nationalisation of the means of production but as a system of worker self-management (2).

In practice, the early collectivisation measures started under Ben Bella's government when in the Summer and Autumn of 1962 many thousands of workers took over the management of farms and factories abandoned by the European settlers in order to keep these units in production and to protect their jobs. The management of these units was entrusted to the comités de gestion, or management committees. This action marked the birth of self-management in Algeria. The position of workers' committees was later legalised by the famous March Decrees issued in 1963 which laid down the principles governing the organisation and functioning of the nationalised farms and factories. This new form of management was extended to all local and French-owned land nationalised in subsequent years.

By the beginning of 1964 the self-managed sector controlled some 2.3 million hectares representing about a third of the total cultivated area. This comprised the large bulk of the modern sector (ie the most fertile land in the country) which supplied a large proportion of Algeria's agricultural exports and on which some 150,000 permanent workers and 50,000 seasonal workers were employed. By 1964 between 314 and 345 industrial factories had also passed under the control of self-management committees. These were predominantly small units employing together between 9,500 and 15,500 salaried workers and

representing no more than 10 per cent of the total work force in industry (3). Many of the larger and more important foreign industrial enterprises continued their operations as before. However, the Algerian government acquired during this period the French holdings in certain industrial firms: in the oil company SN REPAL, the Algiers oil refinery, CAMEL, Caral-Renauld, Sabab-Berliet ... etc.

It is important to note that despite the central authorities' attachment to the system of workers' management during this period, other forms of organising activity were not rejected and were even encouraged. In fact, the first steps towards the creation of an economic system dominated by state socialism were taken under the Ben Bella regime. Indeed, a series of new state enterprises were created between 1962 and 1965 to resume production and invest in new activities: SONATRACH (petroleum and gas), SNS (steel), SN SEMPAC (cereal processing), SNTA (tobacco and matches), ONACO (imports of food productions), SNNGA (department stores), AIR ALGERIE (airways) ... etc.

This contradictory position can be explained by the absence of a clear and unified vision among the nationalists as to how this 'socialist pattern of development' would be achieved in practice. In fact, state intervention in the economic sphere during this period was influenced more by short term considerations and circumstantial factors than by a clear a coherent long term economic doctrine. The government's approach to economic matters was influenced by one primary factor: its survival. The authority of the President, Ben Bella, was weak. Challenged by different opposition groups, he was forced to make concessions first to one faction and then to another. Undoubtedly, state intervention was also seriously limited by the meagerness of the financial resources available to the government and the massive flight of capital out of the country during this period.

In practice, the self-management experiment was a complete failure and did not last long (4). The main reason for this was the conflict between the notion of self-management and the strategy of the central government. In fact, the majority of the workers in the self-managed sector did not fully understand the nationalisation decrees, and effective power within the self-management committees was exercised by the director designated by the relevant sponsoring Ministry. The workers became simply state employees. The management committees were also dependent on state agencies for credit and for marketing their production and this removed almost totally any possibility of independent action. Moreover, the only support for this system of economic organisation came from the relatively small group of intellectuals and trade unionists, and their position was weak within the party. To many observers the failure of the self-management experiment was due mainly to the penetration of the bourgeoisie into the state apparatus. They quickly established their control over the state machinery, brought the self-management sector firmly under state control and were committed to building a powerful centrally-controlled public sector (5).

#### 1.2.2 The high point of *étatisme* (1966-1971)

In June 1965 Algeria's first Chief of Staff, Ahmed Benbella, was overthrown. Power was assumed by a Council of the Revolution, headed by the then Colonel Houari Boumedienne. It is commonly agreed that the 1965 coup marked the triumph of the petty bourgeois group within the state-party apparatus. These comprised high-ranking army officers, the more prosperous peasantry, and elements of the emerging bureaucratic elite who strongly supported the idea of building a powerful public sector under close state control.

The prime justification for this coup d'état was that the

inefficiencies of unplanned 'socialism of emotion' were leading the country to economic ruin. Speaking only a few months after the coup, Boumedienne declared that "socialism is not this incoherent collection of improvised measures and personal reactions that for three years gave the people only an erroneous idea of socialism. Socialism is a long and laborious process of construction that requires the elaboration and application of a comprehensive plan" (6).

At first the new regime sought to encourage private investment and invited the local private sector to participate in the construction of a modern and integrated national economy. The country's economy was still weak and more investment was required (Investment Code, 1966). However, the fundamental principle of the new investment code was that the state retained control over all vital sectors of the economy and local private capital was restricted to those branches defined by the government.

The strategy of the new regime over this period was to rest on three main policy measures: nationalisation of foreign interests, 'étatisation' and industrialisation.

Regaining control over national resources was a central part of the economic programme adopted by the new leadership. The government set out to reduce the dominant position occupied by foreign enterprises in the country's economy. Nationalisation of foreign-owned business and industry took place starting with the banks and insurance companies in 1966 and 1967. But before this nine foreign mining firms were nationalised in 1966 and their assets transferred to a national state enterprise called SONAREM. In May and June 1968, 45 subsidiaries of foreign manufacturing companies (Cablaff, ITT, Neyeric, Carnaud, Altairac, Eternit, Unilever, Lesieur, Lafarge...etc) employing over 7,500 workers were nationalised. By 1970, of the 700 to 800 French-



owned industrial firms which existed in 1963, less than 100 survived. This wave of nationalisations moved slowly into the oil and gas complexes in 1968 and 1969 and culminated with the takeover of the remaining of French oil interests in 1971. With this action, the major sources of rent-producing natural resources were under Algerian control. The end result was that foreign-owned firms operating freely on Algerian soil ceased to exist by the end of 1974, and the ones that remained were mainly joint venture enterprises in which the Algerian government had a major shareholding. Through these large-scale nationalisations all key sectors of the Algerian economy had been brought under state control.

Extensive étatisation, and its corollary, centralisation, was the other strand of the strategy adopted by the group which came to power in 1965. The new leaders recognised the essential fragility, indeed the non-existence of the state apparatus, and consciously chose as a first priority the strengthening of bureaucratic structures. Past programmes based on a 'decentralist' or participatory ethic were not supported, or were eliminated, in the interests of building a powerful central apparatus. One very significant manifestation of this policy was the creation of a large number of state-owned enterprises to run the nationalised property and to control the 'commanding heights of the economy'. The administration of all nationalised property was, as from 1966, entrusted to a network of major national state enterprises, called Sociétés Nationales in the industrial sector and Offices Nationales elsewhere, and only exceptionally to local enterprises.

The self-managed sector in agriculture was first ignored, then allowed to stagnate, and then revised into a mixture of centrally-controlled state farms and generally unregulated cooperatives. Similar developments occurred in industry where the assets of the self-

managed factories were slowly merged with the newly created state-owned enterprises. In effect, these large public firms were to form in subsequent years the economic basis of the state and to become essentially instruments for the execution of its policies.

Although the ideal of the supremacy of the state and the subservience of the individual to the state was in line with the values held during the War of Liberation and thus sustained by tradition, the bureaucratic strain was also reinforced by the military background of the group which came to power in 1965. This led them to favour a tight, hierarchical system of control steered from the top instead of a laissez-faire economy. It may be worthwhile noting that the Soviet model of a closely ordered, disciplined, and planned society was not without influence on Algerian politicians and policy makers. It was viewed by many Algerians as a useful pattern for development that could be emulated by other developing countries. Finally, the ideologies of nationalism and the state as an agent of change, through comprehensive planning and integrated state enterprise, were brought together in the theory of a uniquely Algerian solution to economic development. By letting the state take the lead in planned development and preventing a small group from enriching itself at the expense of the majority of the population, it was hoped that Algeria would escape the class struggle.

Etatisation and regaining control over national resources were only part of the economic programme adopted by the 1965 leadership. With a newly found political stability and growing revenues from oil and gas exports, the Algerian government embarked on an ambitious industrialisation programme. Rapid industrialisation, integration and introversion became the main aims of the Algerian development strategy which was quickly recognised internationally as one of the most powerful attempts to break with the classic form of economic

dependence. The official position is that industrialisation was "the sole remedy to the problems of underdevelopment" and the only strategy "capable of promoting economic and social development in poor countries" (7).

Clearly, this strategy rejects the theory of international division of labour on the basis of comparative advantage. The dichotomy that it implied between industrial and agricultural countries meant, to the minds of Algerian leaders, the acceptance of a colonial status. In fact, industrialisation was largely viewed at that time as a condition of national manhood: national sovereignty had to be strengthened by economic sovereignty.

The Algerian industrialisation strategy formulated between 1966 and 1967 was influenced by the theoretical work of economists such as A O Hirschmann, E Gannage and notably Destanne de Bernis. In outline, it seeks to ensure that national resources are utilised within the country in order to reduce progressively the extroversion of the economy. The long-term objective is to construct a 'complete' productive sector capable of satisfying the needs of consumption and at the same time ensuring the full utilisation of local resources, in particular manpower. The main industries thought to achieve this strategy, the so-called 'industrialising industries', are iron and steel, metallurgical and mechanical industries; and chemicals eg. phosphates, energy-related industries and petrochemicals. In practice, the strategy was built around two basic priorities: that of capital accumulation over consumption and industrialisation over the development of agriculture.

It is essential to note the significance of the public enterprise in this development strategy. The public industrial enterprise was viewed as a vehicle of industrialisation and an agent for rapid socio-

economic development. Indeed, the 1965 leadership thought that a viable industrial base could be established only through a substantial infusion of public enterprise. Moreover, public enterprises over this period had a duty of realising state control over the country's natural resources.

### 1.2.3 The period 1970-1980

This stage in the formation and development of the public sector is by far the longest and most stable phase in the life of the Algerian public enterprise. This is why a good deal of the discussion that follows in the remaining Chapters is to be devoted to it. The period is characterised by several distinct features which may usefully be summarised here.

First, this period saw the position of the public enterprise strengthened by the implementation on a large scale of the industrialisation strategy worked out in 1967 and through the intensification of the investment effort. One implication of this is that large scale nationalisations ceased to be the main source of growth of the public sector. Expansion of the nationalised industries through the creation of production units *de novo* had taken over since the early 1970's. These developments brought with them a slight modification in the objective function of the public enterprise. The primary task assigned to it by the central planners during this period was no longer simply the control of nationalised property but the development of the strategic branches of the economy to which considerable financial funds were allocated in the national plan.

The other feature which marked this period was the adoption of comprehensive economic planning as an instrument for regulating enterprise activities. Several centralisation measures, planning procedures and timetables were legislated over this period. These

measures will be examined on several occasions in later Chapters. It may be sufficient to note here that this period saw the implementation of two major development plans: the First Four-Year Plan (1970-1973), the Second Four-Year Plan (1974-1977) and the beginning of a Five-Year Plan in 1980 (8).

It is also during this period that the first attempts were made to democratise the economic system. The introduction of the workers' participation scheme in all nationalised industries in 1971 (see Section 4 in this Chapter) and the election of a National Assembly (Parliament) in 1976 illustrate these attempts.

Finally, this period - especially after 1975 - saw the emergence of a number of distortions in the economic system and the management of public enterprises which led to the 1980 economic reforms.

## 2 THE IMPORTANCE OF THE PUBLIC SECTOR IN THE ECONOMY

By the early 1980's, Algeria had built up a large and highly diversified public sector which forms the backbone of the country's economy. Table 1 below illustrates the sectoral coverage of the public sector. It shows that the public sector is present in all areas of economy activity. It covers not only transport, electricity, steel, petroleum and minerals but chemicals, pharmaceuticals, engineering, consumer goods (such as textiles, sugar, and paper), ceramics, cement, agro-based industries, trading, construction, small-scale industry, beverages, insurance and banking, health, telecommunications, irrigation, publishing, and tourism ... etc.

In 1983 the public sector, excluding petroleum and gas, was responsible for nearly 56 per cent of the country's GNP (over 70 per cent including the hydrocarbon sector). In fact, with the exception of agriculture, trading and services, which are shared with private

undertakings, the public sector is predominant in all branches of the national economy

The public sector is also important in terms of its contribution to employment and value-added. It has been estimated that the public sector accounted in 1983 for about 70 per cent of total recorded employment in the country outside agriculture and for 70 per cent of the country's value-added (9).

Table 1 Contribution of the public sector to GDP

Economic Sector	1979	1983
Agriculture	24.3	16.4
Industry	73.9	78
Hydrocarbons	81.6	99.8
Public works, construction	73.5	72.4
Transport & communications	79.5	80.7
Trade	34.9	40.9
Services	19.5	22.7
TOTAL	62.6	70.5
TOTAL (excluding hydrocarbons)	35.7	55.7

Source: Bouzidi, A, "L'Industrie Publique en Algérie", in la Revue du CNEAP, no 7, June 1986, Algiers, p 7.

The public sector occupies a central position in the country's industry. It employed more than 75 per cent of the salaried work force in industry in 1983. Although varying from one branch of industry to another, public sector enterprises controlled, on average, over 80 per cent of value added created in this sector in 1981. The contribution of public sector enterprises to total industrial output is also quite significant. It grew from 55.1 per cent in 1973, to 73.9 per cent in 1979 and nearly 78 per cent in 1983 (10).

### 3 ORGANISATIONAL STRUCTURE OF ALGERIAN INDUSTRY

In Algeria industrial activities under public ownership are entrusted to two types of enterprises depending on the administrative body to which they are attached: national or local. As a rule, the national enterprises, which are commonly called Sociétés Nationales, are subordinated to a central administration, mainly a ministry. A local public enterprise in contrast is under the authority of a local or regional body (ie. wilaya, commune).

As mentioned previously, the national public industrial enterprise, which is the focus of this study, has become the most dominant form of industrial organisation in Algeria since 1966. It should be noted here that when reference is henceforth made to public or state-owned enterprises it will generally mean only the national public enterprises. More specifically, since the vast bulk of state or public-owned enterprises in industry are placed under three industrial ministries, the Ministry of Light Industries, Ministry of Heavy Industries and Ministry of Energy and Petrochemical Industries, the term 'industrial' is reserved here exclusively for public concerns attached to these three ministries.

The national public enterprises are large undertakings which operate on a national scale. They have a predominant position in several key branches of industry such as iron and steel, mechanical engineering, electrical engineering and electronics, non-ferrous metals, energy and hydrocarbon processing and petrochemicals. The private and locally-controlled public enterprises, in contrast, operate as a rule in such relatively less capital-intensive industries as food processing, light chemistry, textiles, leather and shoes, wood and furniture. These enterprises are more numerous, smaller in size and have a limited market coverage.

### 3.1 The Concentration of Algerian Public Enterprises

Algerian industry is by any standards highly concentrated. In fact, the large bulk of the Algerian industrial activity is controlled by only a few large public enterprises. This is clearly illustrated in Table 2 which shows the number of industrial enterprises according to form of ownership and their respective contributions to total employment in industry in 1980. Nineteen national public enterprises employed over 73 per cent of the total labour force in industry. The locally-managed public enterprises, private and joint venture firms, which together represented over 99 per cent of all firms in industry in 1980, accounted for only 26.42 per cent of total industrial employment.

Table 2 Distribution of employment by type of enterprise in Algerian industry in 1979

Type of enterprise	No of enterprises		No of workers	
	Number	Per cent	Number	Per cent
1 National public enterprises				
- Under Ministry of Energy	2	-	113000	-
- Under Ministry of Light Industry	12	-		
- Under Ministry of Heavy Industry	5	-	224000	-
Total	19	0.69	337000	73.58
2 Local public enterprises	128	4.64	28000	6.11
3 Joint venture firms	13	0.47	13000	2.84
4 Private firms	2600	94.20	80000	17.47
Grand total	2760	100.00	485000	100.00

Source: Thierry, S P, "Crise du Système Productif Algérien", Institut de Recherche Economique et de Planification du Développement", Université des Sciences Sociales de Grenoble, 1982, France, p 159.

Another measure of the high concentration of Algerian industry is



the share of the national public enterprises in total industry sales in 1980. It can be seen from Table 3 that the national enterprises control roughly 65 per cent of total sales in the manufacturing sector. Thus, the five national enterprises operating in various segments of heavy industry (steel and metal manufacturing, mechanical engineering, machine tools, electronics and electrical engineering, metal constructions ... etc) are responsible for some 75 per cent of total sales in this sector. The building materials industry is virtually under the control of one single national public enterprise; its contribution to the total sales of this branch is over 66 per cent. The food processing industry is also dominated by two large public firms which account for 86.65 per cent of the total sales of this branch. A few national enterprises dominate the leather and shoe, wood and furniture markets with a market share of approximately 58 per cent. Even in the textile industry in which the private sector is more active and has a dominant position, about 32 per cent of the total sales of this branch is controlled by one single national public enterprise.

As far as the hydrocarbon sector is concerned, the two giant state companies, SONATRACH and SONEGAS, assume monopoly positions in the energy and energy-related markets (petroleum, petrochemicals, gas and electricity).

Although the trend towards higher levels of enterprise concentration can initially be attributed to the large scale nationalisations of the second half of the 1960's, this process took on a new form as from the early 1970's as a result of the extensive investment effort and the priority given to rapid industrialisation. Thus, within the public industrial sector under the jurisdiction of the three industrial ministries, the degree of enterprise concentration is

very high. Table 4 shows a distinct change in the pattern of concentration between 1970 and 1980.

Table 3 Contribution of national public enterprises to total sales in manufacturing industry (1980)

Branch of	Public	Sector	Private	Total	Share of national enterprises
	National enterprises	Others			
Heavy industries	6000.00		2000.00	8000.00	75.00
Building materials	2366.76	678.90	460.55	3560.22	66.44
Food industry	7079.45	34.67	1056.17	8170.20	86.65
Textiles	1485.68	207.08	2837.19	4529.94	32.80
Leather & shoes	698.90	0.79	488.00	1187.69	58.85
Light chemistry	1157.99	37.96	901.02	2096.97	55.22
Wood, cork & paper	1340.78	168.17	741.57	2250.53	59.60
Total	14129.56	1127.58	8484.50	29795.55	65.94

Source: Liabes, D, "Capital Privé et Patrons d'Industrie en Algérie", Centre de Recherche en Economie Appliquée (CREA), 1983, Algiers, p 425.

Table 4 Size distribution of public industrial enterprises

Class size	Enterprises (per cent)		Employees (per cent)	
	1970	1980	1970	1980
Less than 500	12.50	-	1.15	-
501 - 1000	16.66	-	3.42	-
1001 - 3000	29.16	5.26	14.18	0.36
3001 - 5000	12.50	10.53	13.05	2.28
5001 - 10000	25.00	21.05	52.22	8.32
10001 - 15000	4.16	21.05	16.12	14.53
15001 - 20000	-	5.26	-	4.30
Over 20000	-	36.15	-	71.93
Total	100	100	100	100

Source: Data on the number and size of public enterprises in 1970 are extracted from "L'Industrie en 1970", Ministère de l'Industrie et de l'Énergie, Vol 2, no 2, Mars 1971. Data relating to 1980-81 are quoted by Bouzidi, A, in "Questions Actuelles sur la Planification Algérienne", ENAP/ENAL publications, 1984, Algiers, pp 113-117.

While the percentage of national enterprises employing more than 10000 workers represented only a very small proportion of total employment (4.16 per cent) in state-owned industry in 1970, this figure rose sharply to about 62 per cent in the early 1980's. A similar picture emerges from the employment figures. The percentage of enterprises employing fewer than 5000 workers fell drastically to only 2.64 per cent around 1980. Moreover, while enterprises employing more than 15000 workers were unknown in 1970, this category of firms came to dominate Algerian industry, accounting for more than 76 per cent of total national public industrial enterprises in 1980 (11).

Table 5 The number of operating units per enterprise in 1979

Enterprises	Number of operating units	Number of employees
<u>1 In light industry:</u>		
SNMC	56	26000
SNLB	27	8854
SN SEMPAC	93	20420
SOGEDIA	25	10495
SNEMA	22	4662
SNTA	19	4522
SONITEX	38	20961
SONIPEC	22	7737
SNIC	18	7907
SONIC	8	5016
SNAT	3	1401
SNERI	3	3234
<u>2 In heavy industry:</u>		
SONELEC	11	11609
SNS	24	27068
SONAREM	47	13433
SN METAL	17	15000
SONACOME	44	26898
<u>3 In energy and petrochemical industries:</u>		
SONELGAZ	48	14800
SONATRACH	-	100000

Source: Révolution et travail, no 420, January 1981 and Rapport de la CNO sur l'Etat d'Application de la GSE, June 1980.

A further indication of the degree of concentration of Algerian enterprises relates to the number of the operating units or plants they control. The growth in concentration may be due to increased multi-plant activity. Table 5 shows that the number of the production units per enterprise is relatively high in Algerian industry. In light industry, for instance, the average number of plants per enterprise was 28 in 1979. In heavy industry, the average number of operating units per enterprise was about 29 in the same year (12). Multi-plant activity is also dominant in the hydrocarbon sector.

Finally, it should be noted that the degree of concentration of Algerian industry is high by international standards. Table 6 below shows the degree of enterprise concentration in Algeria in comparison to its counterparts in the centrally-planned economies of Eastern Europe where the structural features are reported to be relatively exaggerated (13). It can be seen from the Table that the Algerian public enterprises are much more concentrated than their counterparts

Table 6 Size distribution of state-owned enterprises in centrally-planned economies of Eastern European countries and Algeria

	1001-5000	5001-10000	over 10000
Class size	percentage of enterprises employing number of workers		
Algeria	10.5	26.3	63.2
Czechoslovakia	55.5	16.7	12.6
Bulgaria	39.2	4.3	3.8
GDR	29.8	8.2	2.5
Hungary	47.9	20.0	14.5
Poland	47.2	11.9	3.2
Romania	51.9	8.8	5.5
Soviet Union	37.0	11.1	1.2

Source: Data relating to Eastern European Countries are extracted from Zielinski, J G, "Planification et Gestion au Niveau de la Branche Industrielle en Europe de l'Est", in la Revue de l'Est, July 1970. Data relating to Algeria: the same source as in Table 5.

in Eastern Europe. The number of public enterprises employing over 10000 workers represented just over 63 per cent of total national industrial enterprises in Algeria in 1980 against 14.5 per cent in Hungary, 12.6 per cent in Czechoslovakia and 1.2 in 1966 (14).

### 3.2 Forms of Enterprise Concentration

In the period prior to the 1980 reform, public enterprise expansion in Algeria took three main forms: diversification, vertical integration and expansion into social-cultural activities.

#### 3.2.1 Diversification

The national public enterprises are large and highly diversified firms. Their scope of activity, which is usually laid down in their statutes, gives them a large industry coverage. They were made responsible for the administration and control of one or more branches of industry. They were designed to act as representatives of the superior authority, the Ministry, in relation to the operating units subordinated to them; but at the same time they were given the task of coordinating the branch's relations with other organisations outside the enterprise. In this sense, the national enterprise may be defined as "an organisational category representing an economic entity half way between the micro and macroeconomy, or the equivalent of an economic sector in certain national accounts" (15).

One important consequence of the multi-sectoral coverage of the Algerian public enterprise is its potential for diversification. If diversification is taken to mean the expansion of enterprise interests into new production areas not vertically related to its existing operations, then it can easily be shown that Algerian public firms are highly diversified. They are, in fact, conglomerate undertakings involved in the production of thousands and sometimes millions of

products in several industries. It was estimated, for example, that the state textile company, SONITEX, produced around 10 million items in 1978 and was planning to produce over 80 million by the mid-1980's (16).

The data in Annexe 1 set out the major branches of Algerian industry in 1979 and give a brief outline of the major product groups manufactured by each individual public enterprise. It can be seen from the Annexe, for instance, that the national enterprise for mechanical construction, SONACOME, is involved in serving the following six distinct markets:

- 1 Means of transportation: production of coaches, lorries, industrial vehicles, motorcycles, bicycles.
- 2 Agricultural machinery: tractors (wheels, crawlers), harvesters, seeders, sprayers.
- 3 Equipment for construction and public works: shovels, crane bodies, caterpillars.
- 4 Machine tools.
- 5 Water engineering and irrigation productions: pipes, pumps, gates, joints, taps.
- 6 Household appliances: mainly cutlery.

In light industry the national agro-based enterprise, SOGEDIA, is a multi-product firm operating in three separate activity areas:

- 1 Processing and marketing sugar
- 2 Production and distribution of vegetable oils, fats and a large variety of soaps
- 3 Processing and canning of fruits and vegetables.

Thus, what constitutes the scope of activity of one single 'Division' within SONACOME, say, for instance, the one responsible for the manufacture of means of transportation, forms what may be the

equivalent of a whole branch of industry in a developed country in which several specialised or competing firms are operating. By the same token, the canning of fruits and vegetables which is entrusted to one 'Division' within SOGEDIA may correspond in another country to an industry grouping involving numerous small firms. These two examples are not isolated cases. A glance at the Annexe will show that this form of enterprise expansion is common to all national public firms. It should be emphasised that the point which is being made here is not to suggest that Algerian public firms are larger in absolute terms when compared with their counterparts in other countries, but that their relative market share is much greater in Algeria. It is indeed quite rare to find a whole branch of industry in the hands of one single firm in a developed country.

It is true that this combining of several branches of industry under the authority of a single firm was a reflection of the underdeveloped state of Algerian industry in the 1960's. But, as we shall see in Chapter Three, these conglomerate firms became in their turn obsolescent as industry very rapidly grew more complex in the 1970's. This form of industrial organisation generated several economic and management problems.

### 3.2.2 Vertical integration

Algerian public industrial enterprises are also highly vertically-integrated undertakings. The concept of vertical integration is used here to describe the extent to which successive stages involved in the production of a particular product or service are carried out within a firm. Vertical integration is also used to describe the action of a firm in acquiring or constructing facilities for carrying out a productive stage which is either upstream or downstream from its primary activity. Backward and forward vertical

integration refers to the acquisition of upstream or downstream stages respectively.

In Algerian public enterprises, vertical integration occurred at two levels simultaneously: the enterprise and the operating unit. At the enterprise level, most public firms expanded backwards by acquiring and establishing their own sources of supply. They were also given state monopoly over the imports of a wide range of products (usually similar or related to their main product lines) intended not only for their own use but also for the use of other public and private sector firms. Thus public enterprises were made responsible for the distribution of these imported goods all over the country. Another form of backward vertical integration very common in Algerian industry is the acquisition by the production enterprises of their own engineering and project construction facilities to carry out their large investment programmes. Public enterprises have also extended their range of operations by integrating forward into marketing and distribution. Indeed, the large bulk of public enterprises extended their marketing interests down to retail business.

Vertical integration at the operating unit or factory level takes the form of creating large, self-sufficient and integrated plants or combines. In response to the rigidity of the domestic supply system, but also for reasons of economies of scale, public enterprises from 1970 onwards tended to introduce larger plants. High concentration at the factory level meant that more and more successive stages involved in the production of a particular product were performed within the confines of an industrial complex. For instance, in the metal processing industry, machine tools, textiles, electronics, petrochemicals, the large, self-sufficient combine has become the basic unit in the organisation of industry. Each factory acquired its own



foundry, forgings and casting facilities.

### 3.2.3 Expansion into social functions

In addition to their usual business activities, the tasks of the public enterprises extended to include the provision of a number of social and cultural services to their workers. These included the establishment of worker training centres, health care and sporting services, transport and holidays for workers children, housing, nurseries, consumer cooperatives etc. The direct provision of such goods and services by public enterprises can be explained by the interpenetration of the role of the state and that of the enterprise. It is also due to the severe shortages in the supply of these services through the official channels.

### 3.3 Causes of Enterprise Concentration

The reasons for the high degree of concentration of Algerian public enterprises are deeply rooted in the process by which the public sector as a whole was formed and expanded. They are intimately related to the rationale of the public enterprises, the process by which they came into existence, and the severe constraints and obstacles they had to face as they grew bigger and more complex as a result of diversification, vertical integration and various forms of mergers. Concentration was also the result of several other interrelated factors.

First, there was the grouping together of various plants and workshops after their nationalisation in the 1960's and early 1970's. Then there was the conscious policy of liquidating and annexing the allegedly inefficient industrial units which were formerly run under the system of autogestion, or self-management, to which the 1965 leadership was openly hostile. The assets of these factories were

brought under the control of larger public undertakings. This process of mergers and acquisitions continued until 1974 (17).

Further still, the concentration process was not limited to the self-managed plants but extended to involve the grouping of several large state concerns operating in similar markets (or using similar production processes) into larger conglomerates. Thus, in 1972, for instance, a number of merger operations took place in the light industry sector in which the number of national public firms was brought down from 18 to only 11 (18). Table 7 below gives a clear picture of the structural changes which took place in light industry between 1967 and 1979. It shows that the increase in concentration is due to the grouping together of several production units. For example, the accumulated number of production units brought under the control of the 12 public enterprises attached to the Ministry of Light Industry between 1966 and 1979, as a result of the large-scale nationalisations and various merger operations, represented nearly 73 per cent of the total number of operating units in this sector in 1979.

The growth of public enterprises through various forms of mergers continued until 1974, but this source of increased concentration seems to have been replaced by the creation of production units *de novo* which coincided with the launch of the First Four-Year Plan in 1970 and the start of a huge investment programme. Public industrial enterprises were assigned high growth rates and the ambitious investment targets were embodied in a national drive for rapid, large-scale industrialisation.

But why this bias towards the emergence of large size enterprises? Part of the answer to this question lies in the significant institutional changes which occurred in 1965 and the subsequent shift

Table 7 Structural changes in light industries between 1962 and 1979

Number of operating units	Prior to 1967	1968- 1969	1970- 1971	1974- 1975	1978- 1979	Total
At beginning of period	-	178	255	278	357	-
Newly created units	37	6	24	56	25	148
Units taken over into the sector	141	71	25	29	9	275
Units transferred to Other sectors	0	0	15	1	12	28
Renovated units	0	0	11	5	2	18
Total at end of period	178	255	278	357	377	-

Source: Ministère des Industries Légères, "Les Industries Légères en 1979", Mars 1980, Algiers, p 13.

in the country's social and economic policy. It was the result of the rise of an interventionist state and the centralising tendencies underlying the social philosophy of the new political leaders. In fact, the theme of restoring and reinforcing the role of the state was central to the thinking of the new leadership. The creation and development of larger multi-sectoral public enterprises to carry out state aims under a close control of the sectoral ministries was viewed as a necessary foundation stone of the structure of political power: namely, its right to form and interpret the social interest. This is in fact why the Algerian system of economic management was to rest on the large public firm as the fundamental form of industrial organisation. The motive force for the concentration of Algerian industry stems, therefore, from the greater convenience afforded by concentrated industrial structures for the administration of the centrally-regulated economy. The fact that a public enterprise was responsible for one branch of industry made the enforcement of priority

decisions by the central planning office vastly simpler. The allocation of central investment resources, which became firmly established since 1970, to particular enterprises meant an automatic allocation to particular branches of industry. In the same manner, the organisation of public sector industry into a few large concerns made the job of the sectoral ministries, the banks and other central control agencies much easier.

Mergers have also been motivated by other drives such as the rationalisation of management, in particular through reduction of operating expenses and the more efficient use of scarce managerial and technical talent. The bias in favour of large monopoly structures can further be explained by the central authorities' desire to use public enterprises as an instrument to fight, and resist competition from, a significant private sector in textiles, leather and shoes, and food processing industries. Very often, the drive for mergers is not openly admitted. For instance, the administration merges an ailing public enterprise with an expanding, more dynamic one to avoid paying out subsidies.

Sometimes this bias in favour of large-scale operations stems simply from a conviction among Algerian politicians and policy makers, especially in the early stages of development of the public sector, that the bigness of an organisation was correlated with its success. In 1968, Boumedienne, then head of the Council of the Revolution, justified the move towards the large public firm in the following terms: "We are for self-management, but a viable self-management that yields a profit; that results in an efficient organisation of work and an increase in production. To liberate the workers is a revolutionary principle ... but to produce is also a necessity" (19).

Vertical integration, which is one important aspect of enterprise

concentration, can be explained by the management's search for greater security. In fact, the incentive to integrate backward was influenced by the structure of the Algerian market, which for all types of goods and services, and for infrastructure facilities, transport, qualified personnel and social overhead facilities, public works and construction facilities, research and engineering capacity, equipment and machinery, intermediate inputs, was simply unable to meet the needs of a huge investment programme. The imbalance between the capacity of the domestic supply system and the requirements of heavy spending in new investment projects has created a permanent state of shortage of all types of inputs and construction facilities. Faced with these rigidities in the supply system, most public enterprises have responded by establishing their own sources of supply of materials and spare parts, by developing their own engineering and project construction facilities, and became involved in the training and provision of social and cultural facilities to their workers and employees.

Another factor favouring concentration was the belief that large firms are usually better suited to engage in international trade. They can be used as a countervailing power in dealing with foreign suppliers in international markets. The expansion of enterprise interests into marketing and distribution was justified by managements on the grounds that this would make it possible to combat black market speculative practices in the goods which are in short supply in the local market. It was also claimed that integrating production and distribution within the same organisation would allow a closer coordination of the two functions; which would eventually lead to a reduction in distribution costs since there would be no middle-men involved.

Finally, the incentive to integrate at the factory level, that is

the construction of larger plants, is conditioned by management's search for security and for reasons of large-scale economies. In fact, faced with a hostile environment and the absence of local subcontracting, most public enterprises tended to introduce large, fully-integrated industrial combines. The cost advantages of integrating processes are most obvious in some branches of industry such as the production of iron and steel, machine tools, petrochemicals, textiles, where important savings can be achieved in quick succession one after the other. In addition to these technical links, there may also be other costs of using the market and thus a potential cost reduction available as a result of integration. These may include the costs of negotiation and concluding separate contracts for each transaction; and the costs resulting from delays in delivery or low quality products.

#### 4 THE PLACE OF THE PUBLIC ENTERPRISE IN THE ADMINISTRATION OF INDUSTRY

As Wiles points out "an enterprise is a congeries of people" (20). In the case of Algeria the congeries is primarily interacting with a number of central agencies which control its operations. 'Control' here refers primarily to control by central administration of the objectives, resources, operations and results of the state enterprises. In this sense, the theory of the firm in a centrally-regulated economy concerns itself not so much with the interaction between enterprises or with their customers but with that of the planners and the planned. It then follows that a key component in any explanation of the behaviour and performance of the Algerian public enterprise must contain an analysis of the compatibility of the motives and drives of those responsible for seeing that the plan is carried out and the

planned, i.e. the interaction of the producing units with the rest of the decision-makers such as the central planning office, the ministries, the banks etc. The following section outlines important aspects of the planning system, and the hierarchy of control in the pre-reform period.

One important feature of the Algerian economic system since 1970 has been the adoption of central planning as an instrument for managing the national economy. The First Four-Year Plan (1970-1973) made it clearly that "The plan is the fundamental law which governs the totality of the economic and social activity of the country over the period 197-1973" (21). The Second Four-Year Plan (1974-1977) and the National Charter (1976) made similar statements and reiterated the country's commitment to central planning as the sole instrument for achieving rapid and harmonious social and economic development.

The System of Socialist Management introduced in all nationalised industries in 1971 defined the role of the 'socialist' enterprise in similar terms: "The socialist enterprise is the principal agent for the execution of planned development targets. Being responsible for the administration of one or more branches of activity, it is the basic unit in the planning system which participates, within the framework of the main tasks assigned to it in its foundation statute in the (country's) economic, social and cultural development" (22). The 1976 National Charter stipulated that "L'entreprise publique constitue en réalité l'élément fondamental de l'exécution du Plan" (23).

In practice, the public enterprise has become since 1970 part of a macro-planning system characterised by complex decision-making rules and structures. The processes involved in the elaboration, coordination and implementation of the plan made it extremely difficult to distinguish the functions, duties and finance of the public

enterprise from those of the central administration. In running its operations, the public enterprise comes into contact with two types of central agencies: the sectoral ministries and functional bodies.

#### 4.1 The Sectoral or Technical Ministries

Closely modelled on the French system of tutelle, or ministerial guidance, the technical ministries are an important part of the administrative apparatus. As mentioned previously, each national public industrial enterprise is administratively attached to one sectoral ministry. Operational regulation of enterprise production is primarily a responsibility of the relevant ministry. In addition to its traditional discretionary powers and the right to hire and fire top and intermediate executives, it has a formal function to orientate, coordinate and control the activities of enterprises in accordance with the objectives of the national economic plan (24).

The extensive powers enjoyed by the sponsoring ministry in its relationships with the enterprises under its authority are particularly manifest in planning. According to Ordonnance no 75-76 (November 1975), the relevant sponsoring department is empowered to 'give guidance', through its various central directorates, to enterprises in the elaboration of their plans. It 'specifies' the contents of the sectoral objectives to each enterprise, 'approves' these plans with a view to them being adopted by the government, and determines 'the measures to be taken and the means of carrying out these plans' (25). As will be examined in later Chapters (ie. 4, 5, 6 7), public enterprises are also required by law to seek central approval in decisions covering the bulk of their operations.

The legislation establishes clearly that the sponsoring ministry is not an exogenous controller of enterprise activities, but a genuine decision-making entity that participates actively in the decision-



making process. In practice, the control exercised by the sponsoring ministry has proved ineffective for two main reasons: the number of personnel with high qualifications and managerial skills is severely limited in comparison to both the size and scope of activity of the enterprises under their authority and the number of qualified personnel in these enterprises. Indeed, it is often the case that the population of highly-skilled workers (engineers and technicians) and managers in public enterprises is much more highly skilled than the entire personnel of the ministry. The other reason is the absence of an adequate framework for control. This complex issue will be dealt with in more detail in later Chapters (especially Chapters 4, 5, 6 and 7). The above situation has resulted in ministerial staff seeking to collaborate with enterprises rather than controlling them. Public enterprises are further restricted by the existence of several other central agencies which affect in one way or another their operations. Despite the formal preeminence of the sponsoring ministry over these other central control agencies, Algerian legislation and established practice do not disbar the latter from exercising control over public enterprises in those matters which fall within their competence. Traditionally, the most important of these are the Central Planning Office, the Ministry of Finance acting through the banking system, and the Ministry of Trade.

#### 4.2 The Central Planning Office (CPO)

The status and formal structure of the central planning office (CPO) has evolved over time. After independence, and up to 1970, the CPO was no more than a directorate attached to the Ministry of Finance. With the launch of the First Four-Year Plan in 1970, the CPO was given the status of a Secretariat d'Etat (SEP). In 1979 the CPO was

elevated to a ministry.

As in any centrally-planned economy, the CPO is responsible for formulating the national economic plans and coordinating their execution. For it to carry out this function, it should normally stand at the top of the economic administration. Very curiously, this was not the case in Algeria during the period 1970-1979, which covered two major development plans. Right from the outset, the CPO's prerogatives within the state-party apparatus were not clearly defined. In fact, the CPO suffered greatly over this period from the inferiority of its political and legal status in comparison to that of other central administrations (ie the sectoral and functional ministries). Consequently, the success of the CPO's coordination and arbitration functions depended very much on the personal and persuasive abilities of its top executive and on the authority of the Head of State who was involved personally in the elaboration of the national economic plan and consequently in the arbitration process. One very important area in which public enterprises come into contact with the central planning office is the planning and control of enterprise investment.

One consequence of the ambiguity in the definition of the CPO's prerogatives was to exacerbate its traditional rivalry with the Ministry of Industry. Because of the utmost priority given to rapid industrialisation in the 1970's and the fragility of the planning system, the latter acquired increasing powers at the expense of the other central administrations. Experience showed that the sectoral ministries rendered opaque the relationships between the enterprises and the other central administrations. This is so because they were extensively involved in mediating these relationships (26). In particular, the industrial ministries wielded considerable powers in investment decisions which should theoretically lie within the

authority of the CPO, such as the investment funds to be allocated to various enterprises, rates of growth of each branch of industry, choice of production techniques, choice of foreign contractors, leading to serious intersectoral conflicts.

#### 4.3 The Banks and Financial Institutions

The banks which act on behalf of the Ministry of Finance have a privileged position in their relationships with public enterprises. They have a role in all major decisions: investment, imports and production. The banks, which in Algeria are themselves public sector agencies, are assigned two main tasks in their relationships with public enterprises.

The first of these is financing. Enterprise financing patterns are (since 1970) defined in the annual budget of the Ministry of Finance. The 1970 Budget, for instance, introduced the principle of financing enterprise operations exclusively through bank credit. It put an end to the previous system of budgetary grants. However, the impact of these ostensibly liberalising changes in the financing patterns was counterbalanced in practice by several other centralisation procedures which increased the subordination of public enterprises to the banking system. These measures are summarised below.

- The centralisation of all enterprise financial resources in one single bank account. Each public enterprise is required by law to open an account with one of the three 'banques primaires' or primary banks (27). This means that the public enterprise is no longer free to choose the source of financing it sees as most appropriate for its operations.
- Public enterprises were not allowed to finance their activities from their own internal sources. Up to 1976, self-financing was

prohibited in public sector enterprises and their depreciation allowances were confiscated by the Treasury through compulsory subscriptions to special Government bonds.

- In order to control the aggregate level of credit in the economy, the 1970-1971 regulations introduced the principle of planning the financial needs of public enterprises one year in advance. These yearly financing plans became part of the annual budget.

Moreover, the Banque Algérienne de Développement (BAD) and the primary banks were given the task of channelling the centralised investment funds to public enterprises. The enterprise's investment activity is controlled by these banks. Not only are the financial aspects of the investment project scrutinised, but also the adherence to the investment limits prescribed by the plan, the kinds and types of investments, and their conformity with regulations. These aspects of bank control will be discussed in more detail in Chapters Four, Five and Six.

#### 4.4 The Ministry of Trade

The first important area in which public enterprises come into contact with the Ministry of Trade is that of procurement. Imports of machinery, intermediate inputs and consumer goods are under the formal authority of this central administration. The problems related to this particular aspect of enterprise activities will be discussed in depth in Chapter Four. Public enterprises' autonomy is also restricted by the directives of the Ministry of Trade concerning their distribution and sales policies. These directives cover a wide range of decisions such as pricing policy, the areas to be served by enterprises, and general regulations governing domestic trade.

Finally, public enterprises are also subject to a host of rules

and regulations issued by other central agencies such as the Ministry of Labour which gives directives with regard to labour and wage regulations.

The multiplicity of central bodies each in negotiation with the public enterprise produced acute problems of inter-sectoral coordination in the pre-reform period. In particular, it has given rise to organisational frictions and political rivalries between the sectoral ministries, which represent the state as an entrepreneur, and the central functional agencies which are endowed with regulatory and control powers.

## 5 PUBLIC ENTERPRISE ORGANISATION

The above section dealt with agencies set up outside the enterprise and entrusted with functions of planning, coordination and control. In this section the focus will be on the internal organisation of public enterprises. Up to 1971, the structures of public enterprises did not differ greatly from those found in most western corporations. Normally, the highest authority in the public enterprise was the management board, or the Comité d'Orientation et de Contrôle. The board was predominantly composed of senior state officials. In addition to the auditor who is appointed by the Ministry of Finance to verify the accounts of the enterprise and handle its financial operations, the board comprised representatives of several other central agencies (ministries, banks etc). In practice, however, all decisions and management responsibilities were vested in the chief executive. Appointed by the relevant sponsoring minister, the chief executive was responsible for the running of the enterprise. He was frequently assisted in his task by a group of full-time specialist aides.

The year 1971 was a major turning point in the history of the Algerian public enterprise. It witnessed the introduction of an important participatory 'package' into the nationalised industries: La Gestion Socialiste des Entreprises (GSE), the Socialist Management of Enterprises scheme. According to this scheme, the productive workforce should undertake managerial responsibilities. The official document describing the legal and operational framework of the GSE was promulgated in November 1971 (Charter and Code for GSE: Ordonnance No 71-74 dated November 16, 1971). From that date a serious effort was made to enforce this form of management in all the nationalised industries and in all parts of the public sector.

The system of 'socialist management' of Algerian enterprises was designed to achieve both political and managerial objectives. Politically, the system attempted to create a form of democratic and participative management. It was designed specifically to counterbalance the expanded and powerful administrative structure. In particular, the 1965 regime was openly criticised by left-wing groups, especially the advocates of the former system of self-management, for building a state capitalist system in which a small group of technocrats held dominant positions. By introducing this new form of management into public sector enterprises, the Boumedienne regime was therefore seeking to avoid being suffocated by the forces it itself had created: a sterile and powerful bureaucracy. From a managerial standpoint the GSE scheme was designed to minimise conflicts, improve communications, increase member's involvement and to maintain their support for the enterprise and its objectives.

### 5.1 The Mechanics of the System

The Charter and Code of Practice for the socialist management of enterprises stipulates that the productive workforce should undertake

managerial responsibilities. Clearly, the introduction of the new mode of management into public sector enterprises attempts to combine two contradictory principles of organisation: the principle of unity of command and workers' participation.

The system involved the division of all public enterprises to which it is applied into two tiers: the enterprise at the national level and the operating unit at the local level. The main components of the system are the Workers' Assembly, the Joint Management Council and the Operating Commissions. The first two of these are supervisory bodies. The Commissions are concerned with the day-to-day control of the management of the enterprise. Following the two-tier structure of the public enterprise, these bodies exist both at the operating unit level and at the national level.

The Workers' Assembly is the basic body in the participative scheme. At the operating unit level it is elected for a period of three years by the workers; at the enterprise level it is elected by the Workers' Assemblies of the component operating units. According to the Charter, the Workers' Assembly at both levels is a powerful body which is to "control the activity of the enterprise". The Charter gives to these bodies, in theory at least, considerable consultative and co-managerial powers which include both the protection of workers' rights and supervision of their compliance with enterprise objectives. It determines recruitment standards and training programmes, examines and approves the working accounts and annual budget, "contributes to the definition of the general policy of the enterprise for the year to come", supervises and evaluates the overall management, especially in the field of finance, and generally passes judgement on the firm's annual activity. The Assembly may, however, be dissolved or suspended by officials of the central administration (the relevant sponsoring

ministry, the FLN party) for any legitimate reason.

At operating unit level the Workers' Assembly meets four times a year while at the enterprise level the Assembly meets only twice a year. There is provision, however, for emergency meetings upon the request of the government-nominated chief executive of the enterprise or the chief executive of the operating unit.

It was recognised that an assembly of up to 25 members might be administratively unwieldy. In order to be effective, it must have a 'permanent character', which is to be achieved by the use of commissions, or committees. Their number varies from one enterprise to another according to their size and specific needs, but should not exceed five. On paper, these commissions have large powers in the following five areas: (i) economic and financial affairs, (ii) social and cultural affairs, (iii) personnel and training, (iv) discipline, and (v) health and safety regulations. They are composed of members elected by the Workers' Assembly with the exception of the hygiene and security and disciplinary commissions which must have amongst their members some staff specialists designated by the management of the enterprise.

The highest authority is the enterprise-level Joint Management Council. As its name indicates, it consists of the state-designated director-general, the principal managers and two representatives appointed by the Workers' Assembly. There are less powerful unit-level councils as well. The Council is presided over by the chief executive of the hierarchical level concerned, ie. the general manager of the national enterprise at industry level or the director of the operating unit at local level. It is important to note that though workers' representation is limited to a maximum of two members in the Council, there is no specified limit to the number of government-



nominated executives.

Very broadly, the Council is responsible for the overall functioning of the enterprise (or the unit) and meets at least once a week or exceptionally on the request of the chief executive more often. Figure 1 below illustrates the dual form of control of public enterprises: the government-instituted line of control and the participatory line of control.

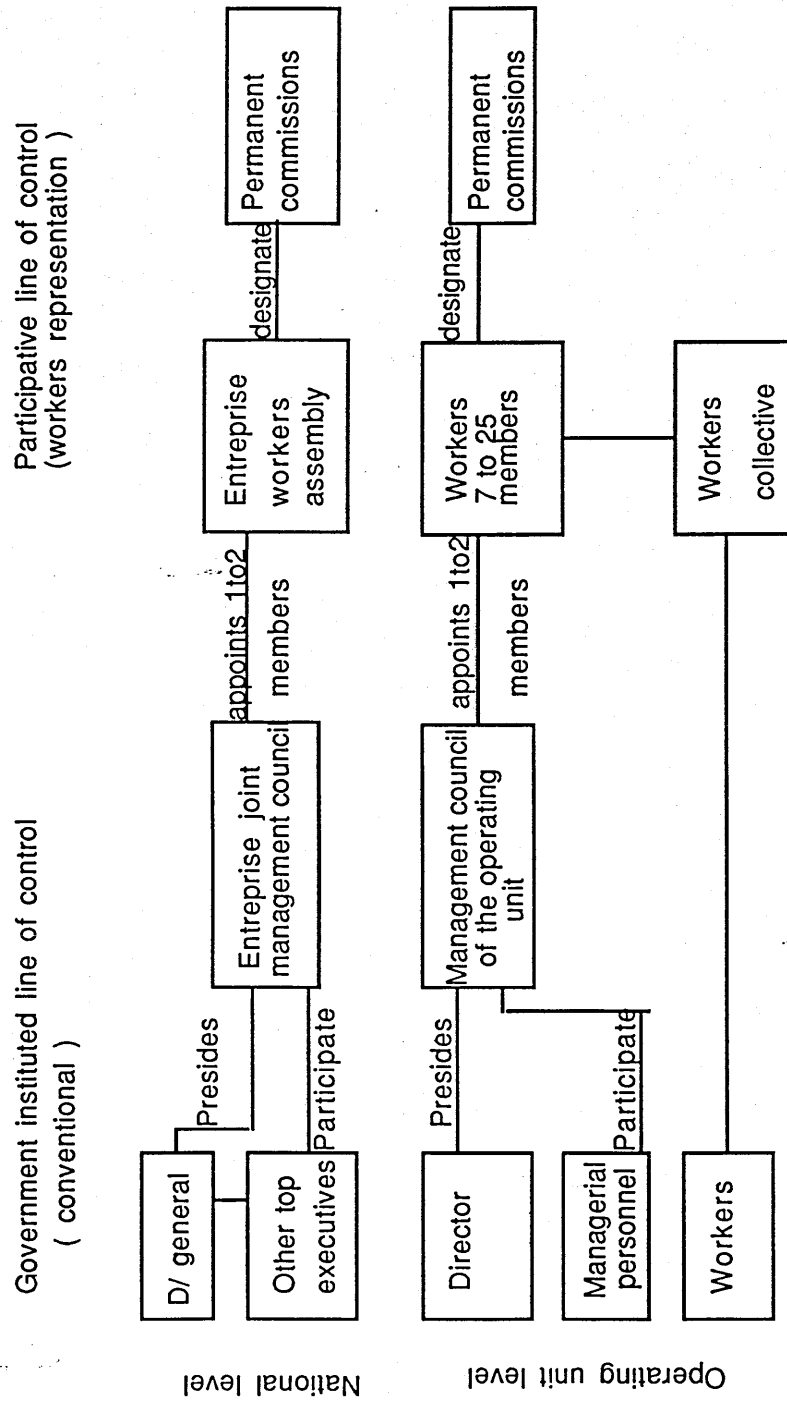
## 5.2 The Operation of the System in Practice

In reality, the degree of implementation of the participative system varied from one enterprise to another. Although the early cases of implementation of the Charter go back to 1974, the system was not fully implemented in all public sector enterprises and there are many instances of delays of up to eight years. For example, in the giant oil corporation, SONATRACH, the new mode of management has not been implemented at all. One of the reasons given for this was the difficulty of combining workers' management with the existing complex enterprise structures.

Even in those enterprises in which the participative system was introduced on time, the analysis of the functioning of this system suggest that it faced many difficulties. These problems will be reviewed in more detail in Chapters Three and Seven. It should be very briefly mentioned here, however, that on the eve of the 1980 economic reforms the participative system was criticised on three main grounds.

The first of these, and this is the view of managers, is that the ultimate objectives sought by the GSE system were misinterpreted in practice. In fact, the various workers' representative bodies were

Figure 1. The dual character of control of the Algerian public enterprises



perceived by workers mainly as means of voicing their complaints and wage demands rather than as an opportunity to increase their involvement in the attainment of enterprise objectives (28). Moreover, managements claimed that this form of management restricted their powers and reduced their room for manoeuvre in the search for efficiency and better performance. In fact, what is being argued here is that workers' participation in decision making was incompatible with the principle of unity of command. Many managers felt that it was a question of production or participation. The participative line of control was also regarded by management as an additional burden to an already complex and deadly-slow government line of control. It was also suggested that the low levels of qualification among the workers' representatives was a serious drawback.

The second criticism of the participative system is that it led to a considerable loss of discipline within public enterprises and a tendency towards the equalisation of wages and other incentives between enterprises and between different skills. This is mainly a consequence of what Granick calls 'the microeconomic full-employment constraint', that is the absence of the threat of unemployment and the political unacceptability of dismissals (29). The most significant meaning given to the 'workers' state', the key ideological ingredient of the socialist management in the 1970's, was that employees should be protected not only against the reality of unemployment, but also against the need to change either occupation or place of work under threat of unemployment.

Finally, left wing and trade union critics have argued that the widespread failure to implement fully the texts was due to the reluctance of managers to adhere to the tenets of the programme. In their view, managements were anxious to preserve their existing

position of dominance within the system. But while managerial resistance is an important part, it is not the whole of the complex problem. The over-rigid and over-centralised Algerian bureaucratic structures were also to blame: each level demands and receives at least a review function, which all takes time, thus pushing the managers into situations where they must choose quickly from a small and predetermined range of alternatives. The 'reaction to crisis' atmosphere acts as a barrier to any serious consultation with and review by the Workers' Assembly. The centralisation of enterprise investment, state control over imports and the price-fixing procedures have often been cited in Algerian economic literature to illustrate the serious external constraints imposed on public sector enterprises and the very limited freedom left to the workers' representative bodies (30).

## 6 CONCLUSION

This Chapter started with a summary of the circumstances which led to the emergence of the public sector enterprise in Algeria. It has drawn a general picture of the development context and its impact on the genesis and evolution of public enterprises. The main concern of the Chapter has been to show how the national public enterprise has become, since 1966, the dominant form of industrial organisation in Algeria. The public enterprises are conglomerate, vertically-integrated organisations operating in several markets and enjoying considerable monopoly powers in these markets.

In order to exercise some form of control over the policies of these giant bodies, the central planners instituted a two-level control system. From above public enterprises were integrated into a multi-channel planning and control system which gives them very little

freedom in decision making. From below they were subjected to a system of workers' control.

The historical and economic background necessary for understanding the structural and functional problems of Algerian nationalised industries is now established. The analysis of these problems will be the subject of Part Two.

## Footnotes to Chapter Two

- 1 The Tripoli Programme is published in the Annuaire de l'Afrique du Nord, CNRS publications, 1962, Paris, p 683.
- 2 Front de Liberation National (Commission centrale d'Orientation) "La Charte d'Alger", Publications de L'ANP, 1964, Algiers.
- 3 Raffinot, M, Jacquemot, P, "Le Capitalism d'Etat Algérien", François Maspero, 1977, Paris 5th, p 67.
- 4 For a complete study of the self-management experience in Algeria see the excellent work of Koulytchizky, S, "L'Autogestion, l'Homme et l'Etat: l'Expérience Algérienne", Mouton, 1974.
- 5 Raffinot, M, Jacquemot, P, op cit, p 74.
- 6 From a speech made in November 1965, quoted by Nellis, J R, "Socialist Management in Algeria", in the Journal of Modern African Studies, 15, 4, 1977, p 530.
- 7 Algérie Presse Service, "L'Industrialisation: Remède Unique aux Problèmes de Sous-Développement", in Bulletin Economique, 11, 1975, Algiers, pp 3-6.
- 8 1978 and 1979 were years of transition and reassessment of previous plans before the introduction of a Five-Year Plan (1980-1984) in 1980.
- 9 Bouzidi, A, "l'Industrie Publique en Algérie", in la Revue du CENEAP, no 7, June 1986, Algiers, p 11.
- 10 Ibid, p 12.
- 11 To illustrate the high concentration of Algerian industry in the 1970's a comparison can be made with concentration levels in 1964. It was estimated that in 1964 enterprises employing over 1000 workers employed only 21.1 per cent and 34.6 per cent of value-added generated in industry. See Sellami, A, "Petite et Moyenne Industrie et Développement Economique", ENAL, 1984, Algiers, p 59.
- 12 To illustrate the impact of multi-plant activity on the concentration of Algerian public enterprises it may be interesting to make a comparison with Polish firms. Blazyca estimated that in Poland each enterprise had on average 9.1 plants in 1971 and 11.1 in 1975. See Blazyca, G, "Industrial Structure and the Economic Problems of Industry in a Centrally Planned Economy: the Polish Case", in the Journal of Industrial Economics, Vol 28, 1979, pp 313-325.
- 13 Ibid and Zaleski, E, "Les Unions Industrielles et les problèmes de la Concentration des Entreprises en URSS", in la Revue de l'Est, CNRS, no 1, 1970, pp 87-127.

- 14 The reader must be warned that this comparison is very crude because the figures in the two countries refer to two different time periods: 1966 for Eastern European countries and 1980 for Algeria. In addition the data relating to Algeria are slightly overestimated because only national enterprises are included in the calculations. However, since national enterprises occupy a central position in Algerian industry as they employ the large bulk of the labour force in industry (74 per cent), the data can then be assumed to remain valid and offer an approximate indication of the degree of concentration of Algerian enterprises within an international perspective.
- 15 Mettouchi, H A, "Les Systèmes de Planification et de Gestion de l'Entreprise Publique Algérienne. Approche Organisationnelle du Développement des Sociétés Nationales du Secteur de la Transformation des Métaux." Doctoral dissertation submitted at the IAE, Grenoble University, 1975, p 240.
- 16 Ministère des Industries Légères (MIL), "Programmes de travaux Portant sur la l'Amélioration, la Conception et la Mise en Place de Système de Gestion au sein des Entreprises Socialistes sous Tutelle du MIL", Imprimerie SNIC, Decembre 1978, Algiers, p 15.
- 17 To give a general idea of the magnitude of merger operations that took place between 1964 and 1974 it may suffice to note that the 450 enterprises which formed the large bulk of the socialised industrial sector in the spring of 1964 were first grouped into sectoral industrial unions and then brought under the control of national enterprises. By the end of 1974, the bulk of the Algerian public sector industry was under the control of some 20 national enterprises. For a detailed account of how the self-managed units were merged with the emerging state enterprises see Boussoumah, M, "L'Entreprise Socialiste en Algérie", OPU, 1982, Algiers, pp 291-298.
- 18 For example, out of the four national enterprises operating in the agro-based industries, only two survived after 1972. SOGEDIS (sugar), SNCG (vegetable oils and fats, and SOALCO (canned food) were combined under one single national firm (SODEDIA). Similar merger operations occurred in leather and shoe (SNC + TAL = SONIPEC), light chemistry (SNIC + SNIV = SNIC), wood and furniture (SNIB + SNL = SNLB) and textile industries.
- 19 Quoted by David and Marina Ottaway in "The Politics of a Socialist Revolution", 1970, Berkley, p 270.
- 20 Wiles, P J D, "Economic Institutions Compared", Basil Blackwell, 1977, Oxford, p 33.
- 21 Article 2, Ordonnance 70-10 dated January 20, 1970, dealing with the first Four-Year Plan (1970-1973).
- 22 Charte et Code de la Gestion Socialiste des Entreprises, Ordonnance no 71-74, dated November 16, 1971.
- 23 Front de Liberation Nationale, "La Charte Nationale", Editions Populaires de l'Armée, 1976, Algiers.

- 24 Article 1 of Ordonnance no 75-76 dated November 1975 dealing with enterprise relationships with the central administrations.
- 25 Ibid, Article 9, paragraphs 1 and 2.
- 26 Benachenhou, A, "L'Expérience Algérienne de Planification et de Développement 1962-1982", OPU, 2nd edition, 1983, Algiers, pp 74-75.
- 27 These are called the 'banques primaires' or 'commerciales'. They are the Banque Extérieure d'Algérie (BEA), the Banque Nationale d'Algérie (BNA) and the Crédit Populaire d'Algérie (CPA).
- 28 Benachenhou, A, op cit, p 275.
- 29 Granick, E, "Enterprise Guidance in Eastern Europe", Princeton University Press, Princeton, New Jersey, 1975, p 473.
- 30 For a brief account of the reality of the system of workers' management and the problems involved see Saadi, R N, "Entreprise Socialiste: Essai d'Evaluation d'un Mode de Gestion", in la Revue du CENEAP, no 1, Mars 1985, pp 32-54.



## PART TWO

### THE STRUCTURAL AND FUNCTIONAL PROBLEMS OF PUBLIC ENTERPRISES

## CHAPTER THREE

### **PROBLEMS OF INDUSTRIAL ORGANISATION**

#### **1 INTRODUCTION**

The suggestion that Algerian industrial structure may be partly responsible for the country's economic difficulties seemed to have gained acceptance in Algeria in the late 1970s with the introduction of the reorganisation scheme in 1980. The recent growth in industrial concentration and its counterpart, the relative decline in the economic significance of the small firm, are trends which must be reversed.

Having benefited from the full support of Algerian policy makers, politicians and management specialists for more than fifteen years, the large national public enterprise came under severe attack and close scrutiny in the late 1970s. This change in attitude towards the big multi-function firm did not come about by mere chance. It was the outcome of an economic crisis which was shaking the country from the beginning of the second half of the 1970s, and which ended up with the emergence of a new political leadership and a major shift in policy in 1979 (1).

The assessment of the development record undertaken in 1978/1979 showed that the Algerian planning system between 1967-1978 was not without its problems and shortcomings (2). These were attributable in the main to the knock-on effects of the decision taken in the second half of the 1960s to concentrate the development effort so heavily in the industrial sector. The results of this policy were as follows:

- (a) it inevitably meant a lower investment priority for other sectors, particularly agriculture.
- (b) at the same time concentration within the industrial sector on so-called 'industrialising industries', (ie. those which produce

intermediate products like steel, and petrochemicals for further fabrication) had a further unbalancing effect on the economy, since their development was not integrated properly with that of the secondary manufacturing industries which they were designed to support.

- (c) the combined effect of (a) and (b) in turn led to the emergence of a small number of major industrial corporations which tended to reinforce the centralising and bureaucratic tendencies within the economy

The experience acquired from working with this form of organisation in industry for more than a decade has made possible the assembly of a considerable mass of evidence as to their behaviour and internal working arrangements of enterprises. An Ad-Hoc Commission was set up in 1979 to investigate the "extent to which changes in the size and structures of public enterprises could improve their internal functioning and efficiency"(3). It concluded that the "reorganisation of our economic administration and our enterprises are an essential lever for combating the negative aspects and distortions which have emerged" (4). It found that the structure of most public enterprises was in several respects deficient and proposed a reform package according to which major structural changes were later implemented.

The Party's Ad-Hoc Commission found that the following problems and distortions were common to public enterprises (5).

- Most public enterprises have failed to achieve full capacity working.
- Operating costs were too high. This led to excessive unit costs and unacceptable financial deficits.
- Public enterprises tended to rely heavily on foreign assistance and technology.

- Public enterprise recruited an excessive number of administrative personnel and did not use efficiently the engineers, technicians and managerial staff.
- Their large size led to complex organisational and management problems such as the inefficient allocation of work and division of authority, lack of internal control mechanisms, bureaucratic methods of management, slow and inflexible information flows etc.

This Chapter will attempt to examine in more detail these deficiencies and distortions. Particular attention will be paid to the relationship of industrial organisation to planning and management in Algeria in the 1970s. This analysis will pave the way for a subsequent discussion of the proposed organisational changes and their implications. The structural problems to be dealt with here are classified into three main headings:

economic and welfare implications

managerial problems

socio-political problems

## 2 THE ECONOMIC AND WELFARE IMPLICATIONS

It would appear that the advantages of the law of large size or economies of scale have been exaggerated by enterprise managers and sectoral ministries in the 1970s. 'Gigantism' in Algerian industry was officially condemned by the Third Party Congress in 1979 and was held responsible for many of the country's economic ills. The criticisms of the economic and welfare problems of enterprise concentration have focused on two distinct but inter-related issues: the absence of specialisation in Algerian industry and the monopoly power which these enterprises acquired over the years.

## 2.1 Lack of Specialisation

The most significant objection to the Algerian conglomerate enterprises has been the absence of specialisation. It has been shown in Chapter Two that public enterprises were large diversified firms responsible for the administration of one (or more) branches of industry. They were organised according to the principle of vertical integration. A typical public enterprise was composed of a grouping of production units, industrial combines, research and design departments and a supply (imports) and sales base. Moreover, industrial enterprises tended to integrate vertically at the plant level. They produced their own tools and parts for the repair of their own equipment to reduce the risks of supply and maintenance failures. It may be recalled from Chapter Two that this was one aspect of the absence of inter-firm division of labour and subcontracting. This absence of specialisation by final product, a pattern found in most industrially developing countries, is a sign of backwardness. In the absence of an adequate industrial 'tissue' in the environment in which the new plants are to be located, public enterprises are constrained to create it themselves.

The lack of specialisation led to a dangerous compartmentalisation of the various sectors and branches of the economy. Because of their autarkic policies and inadequate inter and intra-sectoral division of labour (6), public enterprises tended to grow and develop in their own way in isolation from the rest of the economy. Obviously this type of vertical integration is not compatible with, and is indeed very damaging to, the very aims underlying the 'self-sustained' path of development adopted by the central authorities who are seeking to promote self-sufficiency through more intensive backward and forward industrial linkages. Moreover, the national objective to reduce imports through more inter-sectoral coordination was hampered by the

marked tendency of the public tendency to import highly integrated plants and combines from different suppliers. The diversity of technical standards in these technologies complicated the situation and reduced even further the chances of inter-enterprise cooperation and subcontracting (7).

The economic advantages offered by specialisation and subcontracting were not exploited. The advocates of specialisation by function (production, marketing, investment) and/or by final product argued that the activities auxiliary to the main production lines of the enterprise be carried out at a lower cost by subcontracting them to independent specialised firms. Past experience has shown, for instance, that many workshops in Algerian industry were operating well below full capacity because the demand for their products and services within the enterprise was often below the potential capacity. This problem of spare capacity becomes particularly significant when these workshops can not be used to manufacture products for users outside the enterprise because of differences in technical norms and specifications.

The combination of production and distribution operations within one single enterprise produced serious problems. It may be recalled from Chapter Two that most public enterprises distributed not only their own outputs but also the goods acquired from overseas markets (imports). Many production enterprises were even involved in retailing their products across the country (8). The expansion of public enterprises into marketing and distribution in the 1970s was defended on several grounds. It was thought that this would lead to a better coordination of manufacturing and marketing operations. It was also argued that amalgamation of these two activities would eliminate market relations and help central authorities to combat the widespread

speculation on the goods in short supply in the local market. It was finally alleged that the distribution costs would be relatively lower since the profit mark-ups which would otherwise go to the 'non-productive' intermediaries, would be passed on by the producer enterprises to the consumer in the form of lower prices (9).

It is not possible to confirm or refute such claims on the basis of empirical evidence because of lack of information about this subject. It may be sufficient to note here that prior to 1980, production and distribution costs were not identified and calculated by enterprises in separate accounts. This suggests that the advantages of expanding into marketing might seem to have been exaggerated since they were not always supported by any proven marketing or economic advantages. Most public enterprises expanded systematically into marketing and distribution areas regardless of the costs involved. Some economists suggested that the move of enterprise managements in this direction was the result of their desire to wield more economic power and prestige and to retain as much economic rent as possible (10).

This argument is quite plausible given the complex problems of inter and intra-sectoral coordination in terms of the product mix required, price-quality relations and delivery arrangements and the inability of the central administration to bring the retail market under control (11). In fact, these two factors together with the persistent conditions of shortage of all types of goods and services in the domestic market produced an active rivalry between the production and trade enterprises for the control of the market of these products.

The economic and technical advantages that can be offered by forward integration into marketing and distribution can of course be real in those cases where a close coordination and consultation between the two functions is required. This is particularly true for

many segments of heavy industries (eg. products manufactured to order, basic intermediate goods; specialised machinery ) and in cases where the physical attributes of the products, require shorter distribution channels (eg. perishable products).

Two serious problems associated with the amalgamation of production and marketing activities under the same organisation have arisen. The first is that marketing activities have often proved to be very complex tasks for the enterprises. The costs involved in the distribution of goods and services in a geographically large country are frequently higher than the costs of production. This complexity renders invalid the short-sighted view that marketing and distribution activities are superfluous technical matters that can be easily sorted out once the country's productive base has been laid down (12). One consequence of this mistaken view in the pre-reform period was the neglect of marketing activities in most public enterprises in favour of investment and production operations. There is evidence that marketing departments within public enterprises were relatively understaffed. Moreover, because of their heavy emphasis on investment operations, enterprises did not allocate adequate resources to promote and develop their marketing activities, ie. transport and storage facilities, the establishment of distribution shops, market research studies and after sales services (13).

The second problem which emerged from the amalgamation of production and distribution activities was the overlapping of the spheres of competence of the production and trade enterprises. This produced organisational frictions and conflicts. The Ministry of Trade, for example, could not ensure full control over domestic trade and bring about rationalisation schemes partly because of these institutional overlappings.



Criticisms of lack of specialisation in Algerian industry have also been raised in relation to the backward expansion of public enterprise interests into industrial design and capital investment operations. Several industrial enterprises set up their own engineering and project construction facilities. These capital investment units were designed to prepare and carry out their investment projects and/or to supervise the installation operations subcontracted to foreign firms when the scale and complexity of these projects were beyond their capabilities. However, the combination of production and capital investment operations under one firm was not without problems. There has been a tendency for most enterprise managements to concentrate much of their time and effort on the development of new production capacity rather than on using existing plants and machinery efficiently. An official report remarked that "the large number of investment projects undertaken by (public) enterprises diverted their managements away from the problems of production" (14). It has also been argued that public enterprises cannot be good at doing so many things at the one and same time. Pre-investment studies, industrial design and the construction of capital projects are often complicated matters requiring high experience and professional skills unlikely to be undertaken successfully by small and inefficiently organised departments or divisions within the enterprises.

A closely related problem is that the dispersion of these design and research units and construction facilities over a large number of enterprises stood in the way of developing a national policy concerning the transfer of technology. During the debates on enterprise reforms it was argued that the concentration of these embryonic research and development facilities in larger and specialised units offers not only a rational use of the most scarce resource in the country but also a

means of reducing the country's dependency on imported technology through a better organisation of local subcontracting (15).

The last form of diversification of enterprises' operations which came under attack in 1979 was the growth in importance of the social and cultural functions which they carried out. Public enterprises set up their own worker training centres and developed their own housing and health care schemes. These also included a wide range of such services as transport, distribution cooperatives, creches and sponsorship of sporting activities. It was argued by management and workers that these facilities were made necessary by the persistent shortages and supply failures in the local market. However, the advocates of a sharper focusing of enterprise operations noted that this type of expansion had several adverse consequences. Firstly, the traditional tasks of an enterprise were neglected. While production costs could not be brought under control the 'annexed functions' tended to grow very rapidly in the 1970s (16). Secondly, it was argued that the creation of social activities within public enterprises, the importance of which varied with the size of the resources at the disposal of the enterprise and with its bargaining power, was not conducive to the promotion of social equity among workers. There was also the argument that these services were allocated by enterprises on the basis of ill-defined and subjective criteria since there was no national uniform policy in this area (17). Finally, the high degree of diversification of enterprise operations made the task of identifying separately the real costs and benefits of each segment of activity very challenging and complex.

## 2.2 The Monopoly Power of Enterprises

Criticisms addressed against 'gigantism' in Algerian industry may

be easily set in a wider theoretical framework well developed in the theory of industrial organisation. The core of this theory deals with the analysis of inter-relationships between industrial concentration, which is one important dimension of industry structure, and the behaviour and performance of the firms associated with this type of structure.

Industrial concentration is mainly measured in two ways:

- seller or market concentration: the proportion of an individual industry's output (or other variables, such as sales, employment etc) controlled by the largest enterprises, in that industry
- overall or aggregate concentration: the proportion of the manufacturing sector as a whole that is controlled by the largest enterprises in that sector.

The concept of overall concentration is of interest particularly from the social policy point of view, since it gives some indication of the power structures and the development of power positions in the economy. This concept is also relevant to competition policy given the inter-relationship between overall and market concentration which has been demonstrated in a number of studies concerned with the rise of the conglomerate firm as a factor in the economies of many countries. Market concentration, on the other hand, is of primary importance in competition theory and for the enforcement of competition legislation.

While the existence of a degree of concentration in industry does not necessarily imply anti-competitive practices, it does indicate that the possibilities exist for certain types of conduct and performance which are not usually desirable. Monopolistic and oligopolistic practices are more likely where a few large firms account for the major share of an industry's output compared to a situation where even the

largest firms are relatively unimportant.

Industrial organisation theory suggests that market concentration particularly when reinforced by high overall concentration may have two effects. The first effect of a monopoly is well known and is a relevant to less developed countries as to developed countries. A monopoly tends to charge a higher price and produce a lower output than would a group of perfect competitors facing the same circumstances. A second effect is the 'X-inefficiency' created by the lack of competitive pressure on the monopolists to minimise costs (18). If one of the pleasures of a monopoly is the 'quite life', the monopolist might not attain the technologically feasible minimum costs that competition might otherwise force him to. By using inefficiently too many resource (for his small output) he is depriving the economy of additional goods and services. Moreover, high overall concentration levels may be a cause for concern since it indicates the extent to which a few large organisations may influence major policy decisions in a country. Concentrations of economic power are generally inconsistent with the democratic process in a country.

These familiar deficiencies may be even more acute in the Algerian institutional setting where these structural features are much more exaggerated and where traditional market categories such as competition, profits, prices ... etc, are viewed with suspicion by central planners and politicians who resist approaching economic problems from this angle.

It has been demonstrated in Chapter Two that Algerian industry is highly concentrated in terms of both overall and seller concentrations. The 19 large national enterprises employed more than 73 per cent of total labour force in manufacturing industries and accounted for just over 80 per cent total value added in industry in 1980. Although market

concentration is also high, it varies from one branch of activity to another. It is extremely high in such capital-intensive industries as heavy industry (mechanical engineering, machine tools, steel and metals manufacturing, electronics), petrochemicals and hydrocarbon industries and mining. All in all, between 80 and 100 per cent value added generated in these industries is accounted for by only 7 large public enterprises. The presence of private firms and locally-managed undertakings is negligible in these activity areas. The national enterprises have statutory monopolies in their respective branches.

With the exception of textiles, leather and shoe industries, where an active private sector exists, the large national enterprises have a predominant position in the so-called 'light industries'. On average the 12 large national enterprises control about 62 per cent of total value added in these industries.

The monopoly power of enterprises is only one aspect of industry structure. Several other structural features specific to the Algerian economic system must be noted. They all illustrate the barriers to competition in the Algerian economy.

- 1 The barriers to new entry are very high. Industry boundaries are administratively fixed for each state-owned enterprise, and fixed in its statutes. The enterprise is not, at least in theory, allowed to diversify and expand into areas reserved for other enterprises. In particular, several branches of industry such as mining, oil and gas industries are exclusively reserved for the public sector.
- 2 There is no stock market discipline and, therefore, there are no constraints on enterprise managers such as gearing ratios, valuation ratios; dividend payments, the danger of takeover bids, etc.

- 3 The birth, death and merger of enterprises are purely administrative acts.
- 4 The domestic market is highly protected from external competitive pressures. State monopoly over imports is delegated to the national public enterprises. Imports are, therefore, very restricted. The dependence of most industries, including those in which an active private sector exists, on imported raw materials and spare parts put a damper on the ability of firms to engage in price competition. The rationing of imported inputs effectively helped cartelise industries. Even an industry with an otherwise competitive structure would find its output limited by the stringency of import licensing. A resource barrier has thus been created.
- 5 The Algerian market for both producer and consumer goods is characterised by a permanent imbalance between supply and demand. It can be described as a 'sellers' market, a combination of excess demand and producers with considerable monopoly powers.

These specific features have important implications for the functioning of the public enterprise as they impinge on competition, pricing, self-financing, sectoral equilibrium, the general growth of the firm and the very meaning of 'entrepreneurship'.

Now that the Algerian industry has been shown to be highly concentrated in the hands of a few large state-owned undertakings, how can these structural features be related to the economic distortion which have produced pressures for reforms?

Unfortunately, there are no empirical studies on the effects of the high concentration levels in Algerian industry. Up to 1980 the costs involved were overlooked and sometimes even applauded. In Algeria, as in many developing countries, the central planners and

policy makers have been pursuing the goal of maximising the domestic value added of existing production processes. 'The quiet monopolist' may well achieve this. In theory, the welfare implications of a monopoly outcome become somewhat ambiguous since the development of the 'general theory of the second best'. In a world with many imperfections and distortions one can no longer be sure of the welfare effects of any single distortion. Because, for instance, of the highly distorted price system in Algeria it may be hazardous indeed to attempt to study seriously the impact of monopoly structures on the price-cost margins (19).

These conceptual difficulties, however, do not mean that the undesirable effects of monopoly structures have gone unnoticed in Algeria. The attacks on monopoly powers were not limited to advocate of an active competition policy but came also from proponents of public enterprise planners who recognise that unregulated monopolies may lead to serious economic distortions. The proponents of a 'guided market model' argued that the existence of branch monopolies undermines the proper functioning of the market and that monopoly prices distort the data for economic calculation and resource allocation (20). The reason for this is that enterprises have the power to cross-subsidise operations of the subsidiary operating units and also because some of their transactions take place within the firm rather than in the market. This may reduce pressures on such firms to operate efficiently. The implication is that a loss-making activity may be maintained and financed through subsidies from profit-making segments of activity rather than from financial markets.

J.P. Powels, for instance, has noted that the Algerian industry, which is dominated by large diversified public undertakings, suffers from lack of competition among the economic units (21). He suggested

that a 'necessary and sufficient' dose of competition was needed to force enterprises to rationalise their operations and reduce costs. The failure of most public enterprises to bring their excessive operating costs under control had been masked for many years by the price stabilisation policies of the state and the huge subsidies granted to them.

There is ample evidence that the public enterprises behave in much the same way as the monopolistic firms described in text book economics. They reduce output, press for price increases, limit the range of their product-mix, neglect quality and overlook after-sales services to customers. These problems are the bread and butter of the Algerian press. It should be noted, however, that this negative behaviour is not merely due to the size of the public enterprise. It is the result of the de facto monopoly position of these enterprises and the sellers' market in which they operate.

A third line of argument stresses the fact that public enterprises were under no external economic pressures to introduce new products and production processes. While several advantages in research and development have usually been identified with large firms, Algerian public enterprises fall short of what might be expected of them given the resources put at their disposal. It may be too zealous to expect a great deal of innovative work in the public firms of a developing country. However, past experience has shown that public enterprises have in a sense neglected their duties in this area by relying too much on foreign technology and assistance. There is also evidence that an enterprise with a monopoly or market power position may choose capital-intensive technologies that are inappropriate for a developing country (22). In fact, freed from the cost-minimising pressures, the management of a monopolist enterprise may choose 'easy'



technology of high capital-intensity, thereby freeing itself from the difficulties of managing a large number of workers, and also earning itself the prestige of managing a 'modern' automated factory.

It is true that the technological developments have often produced significant economies of scale with the result that large firms tend to increase even further in size. High concentration might merely reflect the growth of firms to a size which permits the most efficient scale of production to be achieved with the ensuing lower costs which results in turn in lower prices and higher output than would otherwise occur. It seems, however, that the argument of large scale economies in production was pushed much too far in Algeria. Proponents of absolute concentration have often argued that increasing the role of the branch-level enterprise was in accord with modern tendencies towards industrial concentration, which is strongly evident, for example, in capitalist economies. This argument is, however, based on a serious misunderstanding. It is true that in capitalist economies there are tendencies towards concentration, but they do not involve the growth of firms which are already industry monopolists. In capitalist economies the arguments are based on the real advantages of economies of scale which come about as a result of competitive struggle and are not created by an artificial grouping of several plants and production units belonging to the same branch of industry, as is the case in Algeria.

The benefits of large scale enterprises, if any, will depend to a large extent on their form of organisation and the internal management and control mechanisms used within them. The next section will examine the managerial implications of enterprise concentration.

### 3 MANAGERIAL IMPLICATIONS OF ENTERPRISE CONCENTRATION

### 3.1 Introduction

Proponents of large enterprises bringing with them the attendant advantages of diversification and vertical integration too often defend their arguments by making three implicit assumptions: first, that the communications within the organisations are of high quality and certainly better than those between different organisations; next that all parts of the the organisation have common and non-conflicting interests; finally that where intra-group trading is possible, it does take place.

These simplified assumptions seldom hold in practice. It is more realistic to start from the assumption that the relative allocative efficiency of resource allocation within the firm and across the market depends on the organisational form of the large firm and the quality of communications between its various parts. The following section will attempt to examine the constraints and distortions caused by the complex structures of public enterprises and relate them to the management weakness and economic distortions which emerged in Algerian industry in 1970's.

Three basic types of industrial organisations have been identified in the literature on Socialist enterprises (23).

- 1 The public enterprise as a government office. Under this model, industrial enterprises are in fact part of the central administration and their functions are mainly administrative: to control and supervise the subordinate operating units in the process of plan implementation. Public enterprises are created to help the sectoral ministries to supervise the various branches of the economy. These concerns are part of the ministries.
- 2 The industrial enterprise as a business corporation. Under this

model the public enterprise becomes the 'true enterprise' and the component sub-units become divisions or operating units. Organisational and functional details of this type of organisation may be very different indeed. According to circumstances, some of them might choose a decentralised type of structure while others might choose a highly centralised one. Under this model the central planners should deal with branch-wide enterprises only and the latter should be left to decide how to organise their internal structures. Capital directives and government policy measures should be addressed to public enterprises and not the component production units.

- 3 The industrial enterprise as an association of multiple independent firms. Under this structure, industrial enterprises are associations created by independent firms as their service organisations for such purposes as: production and technological research, designing, advertising, market research, bulk supplies and the like. One basic feature of this type of structure is the complete lack of administrative power of the enterprise over the number of operating units.

The choice of a particular organisational structure reflects the central planners' preference to a particular economic system. Public enterprises as a part of the central administration are clearly a feature of a centralised system under which the central planning body tries to manage and supervise directly public enterprises. This model is compatible with the extensive use of administrative methods in management and control. The choice between the public enterprise as a business corporation or association of independent firms reflects also the central authorities readiness to rely on the market mechanism. Thus, if the central planners decide to entrust the shaping of economic

relations between the operating units to market mechanism then it chooses model 3. If, on the other hand, the central planners want to create an organised set of relations, in which - alongside the market - there is the possibility of a more direct shaping of the social division of labour and factors of technical and economic development, then they opt for model 2 (24).

### 3.2 The Organisation Structure of the Public Enterprise

Formally, the Algerian public industrial enterprise, which is also referred to as a 'socialist enterprise' since 1971, is internally organised according to a two-tier system: the enterprise at the national level (head office) and the operating unit at the local level. The 1971 Socialist Management Charter makes no allowance for any intermediate administrative tier. It is therefore, at least in theory, the operating unit, and not the enterprise, which is the 'true enterprise', that is, the basic form of economic organisation in public sector industry. According to this formal structure the public enterprise is very close to model 3 above.

In practice, however, the internal structures of public enterprises became very complex and highly differentiated. They departed quite considerably from the structure initially envisaged by the central authorities. Most Algerian public industrial enterprises were, in fact, multi-divisional organisations with diversified holding structures and in this sense similar to corporations in Western economies. In terms of their functions within the industrial hierarchy and the scope of their authority over the component operating units, Algerian public enterprises in the 1970s can safely be placed somewhere between models 1 and 2.

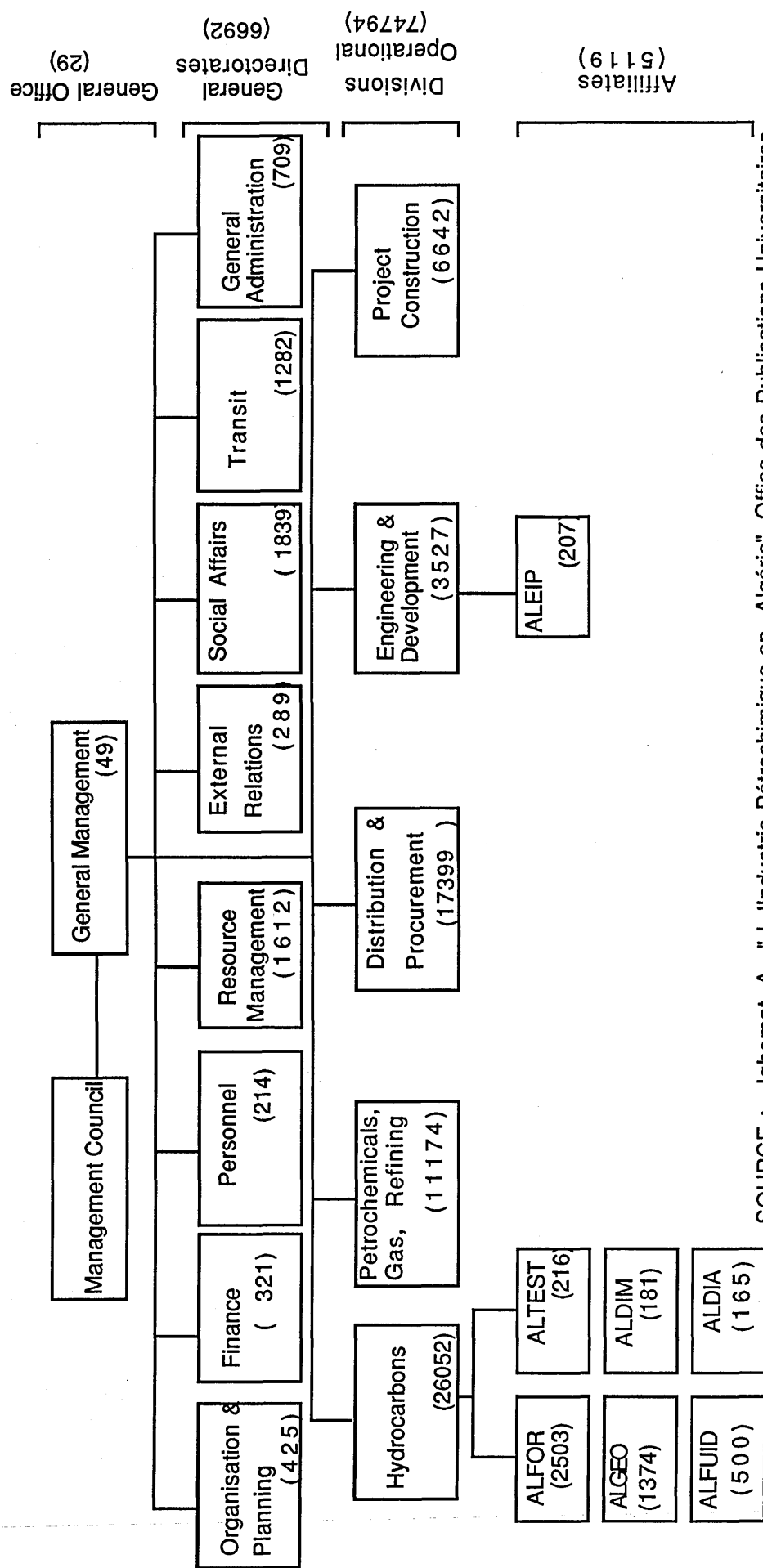
Unfortunately, there is no systematic information concerning the number of the hierarchical administrative tiers in all public firms.

There is, however, evidence which suggests that these grew in number very rapidly in the period prior to the 1980 reforms under the pressures of continuous expansion of enterprises and the widening of their product ranges. The internal structure of the National Steel Enterprise (SNS), for example, comprised more than 9 hierarchical levels (25).

While it is very difficult to try to construct an organisational structure applicable to all public industrial enterprises, Algerian public enterprises have several common structural features.

1 Since most public industrial enterprises were large-scale organisations covering a highly diversified range of activities and functions (production, distribution, imports, investment), they tended to structure their operations along centralised, functional lines. According to this principle, public enterprises activities were organised under several divisions or affiliates. The entire activity of the National Steel Enterprise, for instance, was broken down into three main operational lines of control called groups or affiliates (manufacturing, marketing, engineering and investment operations). In SONATRACH, the giant oil enterprise, the entire activity was structured into five operational divisions (hydro-carbons, petrochemicals, marketing, engineering, investment operations). Figure 1 below shows the corporate structure of SONATRACH before the reform. Each of these affiliates or groups may be broken down even further into several sub-units. Thus, the operations of the manufacturing group in the SNS comprised seven divisions, with each division being responsible for the administration of a given number of production units or industrial combines (26). This type of subdivision applies to other operational groups (marketing, engineering, investment operations) which may be

Figure 1 The organisational structure of SONATRACH before the reform



broken down into several smaller and more homogeneous sub-units.

2 In addition to the above mentioned functional lines of control, the general manager may be assisted by a number of central staff directorates (finance, personnel, planning, general administration, external relations. etc). These directorates are intended to assist the general manager in directing, coordinating and controlling the operations of the various operational sub-units. With their specialist skills, they participate in the formulation of policies and procedures to provide the necessary standardisation and coordination of the activities of the operational lines of management. The number of these central directorates varies from one enterprise to another. It may be worthwhile mentioning that as public enterprises grew bigger both in absolute size and diversification, the administrative tasks of those staff directorates became more complex and consequently had to be broken down into several staff sub-units. In the SNS, for instance, the central personnel directorate was assisted by five divisions (27). This is also true for the other central staff directorates (ie. finance, planning).

The intermediate tiers of management (groups, division, affiliates) were also provided with staff departments (ie. finance, personnel, planning etc). These were designed to assist the division chiefs in operational decision making, but their main task was to gather, process and report information to the higher central staff lines of control. In theory, these staff managements were under the authority of the line managers. In practice, however, pressures were exercised by the central staff directorates through the appropriate line hierarchy to control the operations of the line managements.

The director-general, the central functional directorates together with the group and divisional managers and the staff

departments attached to them are henceforth referred to as 'general management' or 'head office'.

3 A most important factor which was beginning to have major effects on the structure of public enterprises was the process of concentration that was going on within them. As mentioned in an earlier Chapter, most public firms came to own and run scores and sometimes several hundreds of operating units. As its name applies, an operating unit is the administrative tier closest to actual production. An operating unit may be a production unit, a sales unit, or a research and development unit. The size and internal structure of an operating unit varies considerably from one unit to another. It may employ as few as fifty workers (as in many units of food processing and manufacturing industries) or as many as several thousands of workers (as in the large combines of textiles, metal processing and petrochemical industries). The structure of an operating unit is also variable but it may be sometimes very complex and may comprise as many as six administrative levels (28). As a rule, the operating unit is structured along the same lines found in the parent enterprise. It is headed by a unit manager appointed by the general manager of the enterprise. He is responsible for the running, coordination and control of a number of workshops and is assisted by functional and staff departments. In contrast to the intermediate and higher tiers of management, the operating unit is, at least in theory, a financially autonomous entity in the sense that it has its own separate profit and loss accounts.

4 Another characteristic feature of enterprise structures relates to the division of decision-making authority between the head office and the component operating units. With very few exceptions, the basic decisions concerning both the resources (finances, procurement, manpower policy) and the activities of the production units (product



mix, prices) are decided in the head office of the enterprise. The head office was considered as a command centre composed of various functional specialists which intervened whenever calls were made to it by the operating units by giving instructions through the appropriate line of control to which the operating unit is subordinated (29). This has meant that the various decision centres were not controlled on the basis of their profit and loss accounts but on the basis of planned budgets. In particular, the general office was extensively involved in the day-to-day management of the lower levels of management.

5 A last feature intimately related to enterprise structures is the concentration of most, if not all, enterprise headquarters in and around Algiers far away from the production units which were scattered all over the country.

### 3.3 Management Weaknesses Associated with this Type of Structure

Criticisms of this type of organisational structure focused namely on the number of hierarchical levels; span of control, relationships between line and staff managements, departmentalisation. As public enterprises in Algeria expanded and grew in complexity three main problem areas emerged.

#### 3.3.1 Centralisation of decisions

As noted in the introduction to this section, the division of authority between the parent enterprise and the operating units subordinated to it are part and parcel of the state-enterprise package. In fact, public enterprises could have been structured according to a federal system in which the operating units and divisions are quasi-autonomous entities enjoying large operating powers with the national headquarters having only a controlling and supervisory role with little opportunity to directly influence the actual running of these local

units. This would, however, contradict the intention of Algerian leaders to employ national enterprises directly to carry out state aims. Past experience clearly shows the emergence of division of powers within public enterprises which is weighted heavily in favour of the centre. There is a large measure of agreement among Algerian academics and managers that the building up of large firms causes the operating unit not only to lose its economic independence but also to lose its independent accounting position which is reduced to an imperfect system of internal accounting.

While initially intended to concentrate on long-term policy and strategic decision-making (ie. research and development, coordination of investment and financial policies) and the provision of services to the member units (marketing research studies, bulk buying assignments etc) the general office became extensively involved in the daily running of the production units. The report of the Ad-Hoc Commission noted that "The existing management practices in our national enterprises are in many cases characterised by the concentration of decision-making authority in the hands of the central management" (30). As mentioned previously, most public firms have come to own and run numerous production units scattered all over the country and the construction of plants of very large size became a characteristic feature of the public sector industry in the 1970's. Normally this process of concentration at the plant level has two implications. On the one hand, it forces a strengthening of operational management. The general management posts in these large units carry more responsibility. In effect, more functional specialisation for the larger units enhance the authority and responsibility of the operational management. Secondly, in so far as the control and coordination carried out by central management is concerned, the effect

is normally to simplify these tasks, and this again facilitates the strengthening of operational management.

Unfortunately, these important points were not recognised and put into practice by managers and central authorities. The structural changes were not accompanied by improvements in the internal management and control mechanisms. The functional division chiefs and the central staff directorates were still heavily engaged in the affairs of the operating units. This centralised system of administration produced massive coordination and management problems. It weakened the calibre and responsibility of operational management in the large units. It also resulted in delays in decision-making, long and complex information channels and lack of feed-back (31). The Five-Year Plan (1980-84) noted that "The concentration of structures resulted in awkward functioning of enterprises and put into jeopardy the independence of the operating units and improvements in their management " (32).

Moreover, concentration on strengthening the staffing of higher management levels pulled talented management away from operational level and led to a relative neglect of management needs at that level. The consequent weakness in operational management then appeared to require and justify close personal control by higher level authorities. The lack of a sense of personal responsibility and initiative; and the inadequacy of operational management; was thereby perpetuated. The Party's Ad-Hoc Commission remarked in this respect that "the most qualified personnel is concentrated in the central directorates of the head offices in Algiers. This has meant that a most scarce and precious resource is being wasted while the basic operating units have been demuded and starved of capable management" (33).

A further limiting consequence of the concentration of decision-

making is that top management is completely immersed in what should be middle management decisions. This may be regarded as a further waste of scarce resources since their time and effort could be economically more meaningful if they are directed to long-term and strategic decision areas. A last deficiency related to the concentration of major management decisions in the hand of the higher management in Algiers is the increase in the number of business trips to and from Algiers of operational managers to attend meetings held in Algiers. This obviously diverts plant managers from their tasks of solving complex management problems in their units.

### 3.3.2 Departmental coordination

A second problem facing large scale organisations which has also been much in evidence in public sector enterprises is the stress on functional management at the expense of the line or operational management. It has been shown earlier that the specialisation of the administrative work by function in most public firms was developed in response to the demands of the development of large scale industry with diversified operations. One crucial weakness inherent in this type of structure had been the lack of adequate coordination of the various parts of the organisation. Line management decisions (production managers) were shared with other functional and staff departments (procurement, imports, distribution, personnel, finance) in head offices. Orders which came from a multitude of functional departments caused conflict in the organisation of production, and deprived line managers of authority and responsibility (34). In his study of the management systems in five public industrial firms, A Mettouchi found, as early as 1975, that these large firms suffered from lack of coordination of their different segments of activity. He particularly stressed the weak coordination of imports, production and distribution

operations (35).

The functionalised form of administration also led to the emergence of substantial functional superstructures; many of which were unnecessary. The Ad-Hoc Commission drew attention to the excessively high ratio of administrative employees to productive workers (36). Another official report noted that "a large proportion of the workforce is involved in activities not directly related to production in many public enterprises" (37). Table 1 below shows very clearly the disproportion between the number of administrative employees and production workers in the CVI Complex (manufacture of industrial vehicles).

According to international standards, the ratio of white collar to blue collar workers ought to be 1 to 3. However this ratio was completely reversed in the CVI and was slightly over 3 to 1 in 1982. It was also reported that in 1978 the proportion of the administrative personnel represented about 52 per cent of the total workforce in an unnamed national public enterprise (38).

Table 1     Composition of work force in the CVI Complex

Category of worker	Normal size of workforce	Size of workforce actually employed		
		1976	1978	1982
Production workers	2113	1364	1790	2646
Administrative employees	805	3051	4010	6158
Total		4415	5800	8804

Source: Chikhi, S, "le travail en usine" in les cahiers du CREA, No. 4 1984, Algiers, p 8

One obvious implication of the inflation of the administrative apparatus and complexity of enterprise structure was the rapid rise in their operating costs. The Five-Year Plan (1980-84) remarked that "the difficulties created by the inadequate enterprise structures produced very high operating costs in relation to their level of activity" (39). Moreover, the proliferation of the administrative staff at the intermediate and higher levels of management posed also the problem of allocating these administrative expenses among the component units.

### 3.3.3 Internal controls

The concentration of the most qualified personnel in enterprise headquarters in Algiers has been accompanied by a loss of control over the actions and behaviour of the operating units and divisions. The extensive involvement of the general management in the day-to-day operations of the component production units together with the institution of cumbersome and bureaucratic control procedures increased the administrative load on the senior executives to such an extent that they became unable to handle their operational responsibilities efficiently. Cumulative loss of control occurred as instructions and information are transmitted down through successive hierarchical levels. Lengthy internal planning and decision-making procedures, and inadequate coordination have contributed to ill-informed, inappropriate decisions. In short, policy formulation in Algerian public enterprises became simply too intricate to be handled by administrative methods of management and the absence of modern informational technologies, aggravated this problem.

The internal production planning and control processes will be examined in more detail in Chapter Four, but a summary of the broad features of the internal management mechanisms in public enterprises

before the reform is appropriate at this point.

(a) Standard yardsticks of performance at both the enterprise and production unit levels which enables standard costing and measures of comparative performance to replace some of the close personal supervision otherwise required did not exist. For example, there were no uniform technical norms for the use of factor inputs, capacity utilisation, inventory levels and financial resources. Each operating unit had to make its own estimates.

(b) The various segments of enterprise operations, ie. manufacturing, marketing, procurement, investment, were often considered as a joint activity. One Algerian economist noted in this respect that "the accounting practices which had been developing in almost all enterprises tended to mix everything with everything else. Enterprise activities were consolidated and recorded in one single accounting document" (40). The implication of this deficiency is that cross-subsidisation crept in and became a widespread practice in public enterprises.

(c) Most public enterprises failed to work out a transfer price system to be used for the settlement of transactions that took place between the various parts of the organisation. The complex problem of internal pricing procedures has two distinct elements. The first concerns the prices quoted for purchases between two independent operating units. The second concerns prices to be quoted between workshops subordinate to an integrated operating unit. As far as the second point is concerned (ie. within a given production unit) the pricing policy depends substantially on the existence of cost accounting methods and the ability of management to allocate the joint costs among the various products and to determine the cost per unit of production.

Unfortunately such methods have not been developed in most public enterprises with the result that real production costs of the various products were unknown to management. Exchanges between successive complementary production stages within an operating unit were often expressed in physical terms. As far as the transfer prices quoted for exchanges taking place between distinct operating units are concerned, they are not determined on the basis of free negotiations between the seller and buyer units but fixed by the general management of the parent enterprise. They are frequently kept constant for lengthy periods so that after some years transfer prices tended to bear little relationship to the actual costs incurred in their production and to the changing pattern of relative scarcities. These deficiencies have several implications for corporate control.

They limit managers' ability to appraise objectively the performance of the individual operating units and divisions. Since transfer prices are distorted, internal checks on the efficiency of the various sub-units could not be undertaken using normal profit and loss accounting criteria. It leaves the door open for ample cross-subsidisation. (41)

The absence of information about the performance of individual production units weakens the ability of central management to induce efficiency in plant and divisional managers either by controls or incentives. The disposition of management to expand staff and tolerate slack was aggravated by a tendency to regard costs in a strictly instrumental fashion. Opponents of the large diversified and multi-function firms argued that such forms of organisation would lead to the neglect of the financial aspects and to the diffusion of responsibility for the fulfilment of objectives (42).

The failure to identify the true economic performance of the different



levels of activity may lead higher management to take arbitrary decisions in the allocation of resources. Cross- subsidisation may conceal inefficiencies at one or another level and many encourage the retention of an activity even if its return is negative. Under such circumstances, differential performance and subsequence resource allocation cannot be connected, that is, top management becomes unable to reallocate resources from loss-making to profitable lines. The Five-Year Plan (1980-84) indicated that "the difficulties associated with the concentration of enterprise structures have impaired the efficient use of capacity, rational allocation of resources and produced excessive operating costs and serious financial deficits despite continued state support" (43).

(d) Lacking an appropriate management mechanism to control and regulate enterprise decisions, the central administrations tended to intervene directly in the internal affairs of enterprises and the operating units. The Five-Year Plan (1980-1984) described this intervention as follows: "Moreover, the lack of a clear framework within which the central administrations supervise enterprises operations led to interventions on the part of the supervisory ministries in the internal affairs of these enterprises, rendering illusory their autonomy and responsibility" (44). These interventions led to the development of serious conflicts between the state and public enterprises.

Another aspect of the problem usually associated with deficient structure and management in enterprises is their impact on national planning. Since central planners did not have an appropriate shadow price system to be used for macro-economic decision-making purposes, they had to rely on the cost data transmitted to them by enterprises. This information may mislead central planners and lead them to take

wrong decisions at a national level. This is perhaps why the Five-Year-Plan (1980-84) concluded that "the structural problems have deferred the implementation of (appropriate) instruments for the direction of the economy and resulted in the observed imbalance in plan implementation and distortions in the functioning of the economy" (45).

#### 4 IMPLICATIONS OF ENTERPRISE CONCENTRATION FOR SOCIAL CONTROL

Concentration of enterprise structures has serious social and political implications because it leads to the concentration of economic power and political influence. How far a nation ought to have all her industrial eggs in relatively few baskets may be an important question. Concentration of economic power is generally inconsistent with the democratic process in a country. This issue is of particular importance in a developing country where social control institutions are usually weak. Concentration of economic power which is usually associated with large firms involves a potential loss of social control at two distinct levels: central control from above and worker control from below.

##### 4.1 Effects of Concentration on Central Control

One significant consequence of the rapid growth of the public enterprises and the increasing concentration of Algerian industry in 1970's has been the loss of control exercised by the central administration over their operations and policies. Instead of helping public decision-making, the monolithic groups built themselves into de facto parallel exclusive direction agencies. Enterprise managers and senior executives were alleged to have been pursuing their own political ambitions by building large 'empires'. A Boukrami, for instance, suggested that "the tendencies to develop large groups can be explained by the desire of the micro-economic units to secure the

maximum of the national product by exploiting the bargaining power of the firm. This situation is well known in Algerian practice since the management of large public firms have always tried to escape the control of central planners" (46). This situation was further aggravated by the absence of powerful social control institutions (47). Public enterprise seems to have become an arena for political rivalries with the enterprise managers and the technocrats in the industrial sectoral ministries emerging successful.

In fact, because of their large size and importance in the economy, some enterprises became so powerful that the influence, prestige and status of their director-generals surpassed that of a minister or a highly ranked party member. The expression "states within a state" is often used to describe the rising power of these executives (48).

Finally, the concentration of all public enterprise headquarters in the capital Algiers, far from the production units, gave the impression that Algiers was the only decision-making centre in the country and thus produced severe regional imbalances.

#### 4.2 The Impact of Large Size on Worker Participation

The concentration of decision making authority in the hands of the senior managements of public enterprises has had adverse affects on worker participation. It diminished the influence of workers. The system of Socialist Management (GSE) introduced in 1971 was intended to give the workers a say in the running of the enterprises in which they worked. The Algerian leadership also used this participative system as a buffer against the powerful position of the director-generals. Under this system, the enterprise was internally structured on a two-tier basis: the enterprise (at the national level) and the

production unit (at the local or operating level). The texts of the GSE view the production unit as the basic cell in the administration of industry. In principle, worker participation takes place at both levels. No account was taken of any intermediate levels between the enterprise and the production units. The reason for this was to involve engineers and technical staff more closely with production decisions and to keep the administrative staff to a minimum.

Effective implementation of the participative scheme in subsequent years has encountered many difficulties. Part of the problem arises from the fact that the code of practice did not allow for the complexity of the enterprises such as those in steel and petroleum industries which in reality represent more than one single industrial activity. It has been previously shown that the actual structures of most public enterprises comprise several administrative levels. The problem, therefore, was how to reconcile the participative scheme with the existing complex and differentiated structures.

It has been officially admitted that "the introduction of new social relations in enterprises were impaired by the excessive centralisation of their managements" (49). The production units tended to lose their autonomy in the types of the multi-tier structures adopted by most public enterprises. In an interview study carried out in 15 public enterprises in 1979, R Zeffane concluded that the existing organisational structures influenced the extent of implementation of the participative system (50). Out of a list of 19 decision areas he found out that, in 6 of the 15 enterprises surveyed, worker representatives were not involved at all in any of the decision areas considered. In those enterprises where the workers representative bodies said they were involved in decision-making, the main decision making areas were restricted to personnel matters

whereas matters requiring greater technical knowledge or those of a strategic character remained with the specialists representing the conventional line of control. Table 2 shows the low degree of involvement in various types of decisions. This means that although formal control over policy is theoretically to be shared with workers representatives, in practice, influence and power were exercised predominantly by managerial personnel.

Table 2 Workers' involvement in various types of decisions

<u>Types of Decisions</u>	<u>Involvement out of 15 enterprises</u>
<u>Production decisions</u>	
overtime to be worked	2
output to be scheduled against given plans	2
selecting the type/brand of equipment	0
dictating the methods of work to be used	0
allocating the number of operatives (workers) required for each job on the worker floor	0
purchasing new equipment to increase output or widen activity	1
replacing machinery and equipment	0
deciding on what work flow machinery or equipment should be	0
inspection decision	0
	<hr/> 5
<u>Personnel decisions</u>	
work rate requirements	3
appointing operatives	9
operating workflow supervisors	9
operating senior administrative staff	2
promoting supervisory staff	2
on the job training methods to be used	1
training methods to be used outside organisation	0
	<hr/> 26
<u>Other decisions</u>	
pricing of output	2
creating a new product	2
launching a new product	0
	<hr/> 4

Source: Zeffane, R, "International Perspectives on Management and Organisation". Gower Publishing Corporation Ltd., 1981, London, p.72

Effective implementation of the participative scheme required either a considerable adaptation of the existing structures (ie. reduction of administrative tiers, breaking up of enterprises), a position defended by workers representatives and their supporters in the state-party apparatus, or a broad interpretation of the rules of GSE to suit the pre-existing structures, a view, not surprisingly, defended by management and senior ministerial staff.

The size and complexity of the public enterprises led some executives to rethink the participative model with the aim of adapting its principles to the existing structures which they regarded as essential for the functioning of the enterprise and its adjustment to national goals. It was also suggested that the use of modern technology tended to involve many technical decisions beyond the comprehension of most of the work force making participation difficult. A government official pointed out that " ... past experience has clearly shown that the two-tier system cannot meet at one and the same time the requirements of a centralised functioning of the economy and the principles of worker participation at all work levels" (51). Another senior official in the Ministry of Industry raised the possibility of altering the GSE rules to cope with the technical and economic reality of the enterprise as follows: "Is the two-tier system efficient? Is it not possible to work out another form of organisation which takes into account the different types of relationships within an enterprise? The enterprise is a complex organisation in which there are hierarchical relationships between the director general, the chief responsible for a given function and the manager of a given production or service unit" (52).

Workers representatives, in contrast, seem to stick to the letter and spirit of the GSE Charter and ask for a share in decision-making

within enterprises. In their view, it is the existing structure which should be brought into line with the rules of the participative scheme. They ask for the elimination of the intermediate administrative tiers between the enterprise and the operating units. They realise the threats posed to them by the proliferation of the administrative superkingdoms in enterprise headquarters; the costs of which will have to be borne by the productive workers in the operating units. They also see the formation of several administrative tiers within enterprises as strengthening the concentration of decision-making authority in the hands of the higher management (53).

In fact, as public enterprises grew bigger and their structures more complex, influence and power were exercised predominantly by managerial personnel. Worker participation was reduced to a mere slogan. The system seems to have failed to bring together the interests of both management and workers. One illustration of this failure is the rise of open social conflicts, discontent and unrest among rank and file workers in the late 1970's following the deterioration in their living conditions (54).

The main problem stems from the conflicting ambitions in Algerian socialism to reconcile central planning with participative management and it is further aggravated by the different ideas concerning the 'organisational logic' of administration and the constraints imposed by the contingencies of organisational size and technological complexity. These failures have accelerated the move towards the reform of enterprise structures.

## 5 CONCLUSION

The national public enterprise has become the predominant form of organisation in Algerian industry since 1965. Due to a series of

---

mergers and acquisitions following the nationalisation wave during the second half of the 1960s and to heavy public spending in industry in 1970s, these public concerns grew very rapidly. They became large conglomerate firms responsible for the administration of a whole branch of industry. This pattern of concentration in Algerian industry came under severe attack in 1980 as one the major causes of the country's economic ills.

This Chapter has analysed the various distortions associated with the deficient organisation of Algerian industry and the internal structures of public enterprises. While these structural distortions are indeed an important element in Algeria's economic problems they are not its sole cause. The next five Chapters will seek to show that the nature of the planning mechanism and the system of enterprise management were also significant contributory factors.



### Footnotes to Chapter Three

- 1 See for further details, Thierry, S A, "La Crise du Système Productif Algérien". Institut de Recherche Economique et de Planification du Développement. Université des Sciences Sociales, 1982, Grenoble. France.
- 2 Ministry of Planning, "Synthèse du Bilan Economique et Social de la Décennie 1967-1978", May 1980.
- 3 FLN, Commission Ad-Hoc Chargée de la Restructuration des Entreprises, "Rapport Général", April 1980. The Commission comprised about 100 members representing the following bodies: the Central Committee, Party members, senior ministerial cadres, enterprise directors and mass representation organisations (workers, youth, farmers, etc).
- 4 Ibid, p 16.
- 5 Ibid, pp 73-74.
- 6 Ministry of the Light Industries, "Réflexions sur la Restructuration des Entreprises", 1980, pp 12-14.
- 7 This issue will be examined in more detail in Chapter 5 which deals with the planning of enterprise imports.
- 8 Several examples can be given: SONITEX (textiles), SONIPEC (shoe and leather), SOGEDIA (food processing), SN. METAL (metal constructions), SONACOME (mechanical constructions).
- 9 Ministry of the Light Industries, op cit, p 23.
- 10 Benachenhou, A, "L'Expérience Algérienne de Planification et de Développement (1962-1982)". Office des Publications Universitaires. 1983, Algiers, p 123.
- 11 The retail market was dominated by private traders. Although wholesale trade was officially under state control, the central authorities lost control over the retail trade. The result has been the development of a black market caused by persistent economic shortages which in turn led to speculation and inflationary pressures.
- 12 Touat, A, "La Fonction de Distribution". Institut National d'Etudes et Analyses pour la Planification, 1982, Algiers, Vol. 1. pp. 12.
- 13 Ibid, pp 71.
- 14 Ministry of Planning, op cit, p 337.
- 15 Bouzidi, A, "Questions Actuelles de la Planification Algérienne". ENAP/ENAL. 1984, Algiers, p 126.
- 16 Boukrami, S A, "Formes de Marché et Politique de l'Entreprise". OPU, 1983, Algiers, p 13.

- 17 Ibid, p 13.
- 18 The difference between minimum attainable costs and actual costs for a given output was described by Leibenstein as X-inefficiency. See H. Leibenstein "Allocative efficiency vs X-efficiency". American Economic Review 56, 1966, p 392.
- 19 It is not surprising that the Ad-Hoc Commission could not establish a systematic relationship between enterprises' concentration and their performance. It noted that "It would appear that the observed management difficulties are common to all enterprises large and small", op cit, p 45.
- 20 Ibid, p 56.
- 21 Powels, J P, "Réflexions sur les Nouvelles Orientations Economiques et Energétiques du Plan Quinquennal (1980-1984) et sur l'Organisation de l'Economie Algérienne", ENAL, 1983, Algiers, p 69.
- 22 FLN, Commission Ad-Hoc, op cit, p 73.
- 23 Zielinski, J G, "Economic Reforms in Polish Industry", Oxford University Press, 1973, London, p 278.
- 24 Ibid, p 279.
- 25 For more details see Societe Nationale de Siderurgie (SNS), "Organisation et Structure", Imprimerie SNS, 1979, Oued Smar.
- 26 Ibid
- 27 The four divisions are:  
Recrutement and Training  
Industrial Relations and Work Conditions  
Methods and Techniques of Personnel Management  
Cadres.
- 28 Union Nationale des Ingenieurs, Architectes et Scientifiques Algeriens (UNIASA). "Comment Débureaucratiser l'Entreprise Industrielle Nationale". In Algérie-Actualité (weekly newspaper). No. 1045, October 24-30, 1985, pp 89.
- 29 Ibid, p 8.
- 30 FLN, Commission Ad-Hoc, op cit, p 21.
- 31 UNIASA, op cit, p 8.
- 32 Ministry of Planning, "Plan Quinquennal 1980-1984", 1980, p 437.
- 33 FLN, Commission Ad-Hoc, op cit, p 21.
- 34 UNIASA, op cit, pp 7-8.

- 35 Mettouchi, H.A. "Le système de Planification et de Gestion de l'Entreprise Publique Algérienne. Approche Organisationnelle du Développement des Sociétés Nationales du Secteur de l'Industrie de Transformation des Métaux". Doctoral Thesis submitted at I.A.E., Grenoble University, 1975, p 231.
- 36 FLN, Commission Ad-Hoc, op cit, p 73.
- 37 Ministry of Planning, "Synthèse du Bilan Economique et Social", 1980, p 342.
- 38 Ibid, p 342.
- 39 Ministry of Planning, op cit, p 340.
- 40 Bouzidi, A., op cit, p 119
- 41 Ministry of Planning, "Algérie-Développement: La Restructuration des Entreprises Publiques", May 1983, p 69.
- 42 FLN, Commission Ad-Hoc, op cit, p 50.
- 43 Ministry of Planning, "Plan Quinquennal (1980-1984)". op cit, p 438
- 44 Ibid, p 438.
- 45 Ibid, p 438.
- 46 Boukrami, S A, op cit, p 11
- 47 The National Assembly (Parliament) was introduced only in 1976. The Party's control of the state apparatus has been weak in Algeria at least up to 1980. Up to 1976 the leading political bodies were the National Revolutionary Council and the Council of Ministers.
- 48 Drach, M, "La Restructuration de Sociétés Nationales". in Le Monde, November 8, 1982, pp 36-37.
- 49 Ministry of Planning, (1980). "Synthèse du Bilan Economique et Social", op cit, p 342.
- 50 Zeffane, R, "International Perspectives on Management and Organisation", Gower Publication Corporation Limited, London 1981, p 73
- 51 Minister of Labour, Mazouzi, C, in an interview with 'Algerie-Actualite', No. 578, November 12-18, 1976.
- 52 Extracted from a speech made by the then General Secretary of the Ministry of Industry and Energy at the Second National Conference on the System of Socialist Management. Quoted by Saad, N. in "La Gestion Socialiste des Entreprises", 1985, OPU. Algiers pp 391-392.
- 53 Saadi, N, ibid, p 389-394.
- 54 See Chapter 7 on wages and incentive schemes.

## CHAPTER FOUR

### **PLANNING OF ENTERPRISE INVESTMENT**

#### **1 THE INVESTMENT CRISIS**

As noted in Chapter Two, one outstanding feature of the Algerian strategy of economic development during the last two decades has been its emphasis on extensive capital formation. This strategy, the origins of which go back to the mid-1960's, flows from the widely held view among Algerian planners and policy makers at the time that rapid economic growth can be secured only through rapid industrialisation. The main concern of the central planners, therefore, was not with raising the immediate living standards of the population but to give priority to industrialisation and the development of the so-called 'industrialising industries'.

Broadly speaking, these include such basic industries as metal manufacturing (i.e. steel, metallurgy, mechanical and electrical engineering), energy and energy-related industries, building materials, fertilizer and agricultural machinery. The specific feature of these industries, according to the advocates of industrialisation, is that when located in a given environment they will generate a whole process of 'industrialising' effects upon other parts of this environment. In particular their induced effects upon agriculture will be considerable, since they will supply it with the necessary inputs for modernisation and more intensive cultivation. They also act as the 'motor' of the development process by producing the raw materials and machinery for other sectors of industry engaged in the production of finished goods such as vehicles, farm machinery, pumps, and irrigation equipment, electrical goods and plastics thus strengthening the inter-industry matrix. In this model, the energy-related industries, mainly oil and

gas, will provide fuel, feedstocks and finance for the industrialisation process.

This strategy seeks to ensure that national resources are more effectively utilised within the country in order to reduce progressively the extroversion of the economy. The long-term objective was to construct a 'complete' productive sector capable of satisfying the needs of consumption, and at the same time the full utilisation of local resources. The target set for industry in the country's long-term development objectives and strategy (1967-1980) was to construct an integrated and viable industrial base by 1980. Three development plans had been implemented during the pre-reform period: the Three-Year Plan (1967-1969); the First Four-Year Plan (1970-1973) and the Second Four-Year Plan (1974-1977). 1978 and 1979 were years of transition and reassessment before the introduction of a Five-Year Plan (1980-1984).

It was estimated that, in order to facilitate the implementation of this ambitious development strategy, direct state involvement in investment decisions was necessary. In practice, this was achieved through three main policy measures:

- (a) the employment of public sector enterprises as agents to carry out the industrialisation programme decided by the central authorities;
- (b) the centralisation of investment decisions. Public sector investment has since 1970 been integrated into the national economic plan. The objective of this centralisation is two-fold. One: to concentrate the nation's resources on certain objectives and avoid their dissipation on other objectives which would divert them from the purpose of rapid industrialisation; and two: to enable the central planners to monitor, coordinate and control the

investment programme carried out by public enterprises;

- (c) the adoption of high rates of capital accumulation. This was essential to carry out the ambitious investment strategy and to finance the rapid expansion of the educational system facilities to produce skilled workers, technicians and managers for the new factories.

After 1967 the priority given to capital accumulation and in particular to productive investment, resulted in living standards, which were already low, being held down by a deliberate policy of restraint on consumption expenditure. Following the improved financial prospects resulting from the oil price increases in 1974, the implementation of the long-term development strategy was speeded up. This was reflected in the sharp increase in investment during the First Four-Year Plan (1970-1973). The volume of investment rose from 9.06 AD billion during the period 1967-1969 and 27.27 billion during the First Four-Year Plan, to 110 AD billion during the Second Four-Year Plan and 93.63 AD billion during 1978 (1). The rate of gross fixed capital formation in Algeria has been one of the highest in the world since it represented on average more than 40 per cent of the country's gross national product in the period 1967-1980 (2).

The priority given to the industrial sector is reflected in its share in total investment expenditure. The proportion of investment funds allocated to industry was 49 per cent in the pre-planning period (1967-1969), 35 per cent under the First Four-Year Plan and 43 per cent under the Second Four-Year Plan; only 18 and 15 per cent went to agriculture over the periods (1967-1973) and (1974-1978) respectively.

Unfortunately, the implementation of this extensive growth strategy faced many difficulties and produced many distortions in the Algerian economy. These difficulties have been thoroughly examined by

several official and unofficial studies. They can be grouped under five main headings.

### 1.1 Low Rates of Project Installation

Table 1 shows that public enterprises were able to implement only a small proportion of their planned investment; over the last decade the public industrial enterprises were able to absorb on average only 53 per cent of their planned investment expenditures.

Table 1 Ratio of actual to planned investment in public sector industry (1967-1978)

	1967-1969	1970-1973	1974-1977	1978	1967-1978
Total industry	35	57	44	48	53
Hydrocarbons	54	61	57	52	57
Capital & intermediate goods	25	54	40	51	56

Source: Ministry of Planning, "Synthèse de Bilan Economique et Social 1967-1978", 1980, Algiers, p 6.

The rapid rise in the level of investment in the industrial sector since 1971, and especially after 1974, was far beyond the absorption capacity of the Algerian economic system and could not guarantee an equally rapid growth of planned capacity. As a result, the industrial programme was subject to delays and, in consequence, escalating costs. The delays in the completion of investment projects, many of which had to be carried over from one planning period to the next, created a problem which the planning system could not cope with. At the end of 1978, projects valued at 210 AD billion remained to be completed - the equivalent of four years of planned investment at the 1978 investment level. According to official statistics for investment as a whole,

the actual cost of the investment programme turned out to be two to three times higher than the planned expenditure targets over the period (1967-1978) (3).

### 1.2 Serous Financial Problems

As will be shown in Chapter Eight, the high investment rates assigned to the public enterprises combined with wrong investment decisions, delays in the completion of investment projects and the subsequent escalation of their costs had profoundly adverse effects on the finances of the public enterprises. These distortions were a major cause of the public debt problems and the strong inflationary pressures which were hitting the country during this period.

### 1.3 Low Efficiency of Investment

Investment in Algeria has been very inefficient in spite of the high rate of capital formation, and output growth for industry as a whole has been much slower than expected. The Ministry of Planning estimated the gross incremental capital-output ration to be 11.2 : 1 in industry excluding the oil and gas sector (9 : 1 including this sector) which is very high by any reasonable standards. This finding is confirmed by a study carried out by C Palloix who showed that the ratio of output to the stock of fixed capital in Algerian public sector industry had been falling over the 1967-1978 period. He also found that labour productivity in public sector industry was falling over the same period. This downward trend in the efficiency of public sector investment is illustrated in Table 2.



Table 2 The efficiency of capital and output per worker in Algerian industry (excluding hydrocarbons) between 1966 and 1977

Year	Ratio of industrial output to capital stock	industrial output per worker (AD current prices)
1966	0.416	35596
1967	0.348	-
1968	0.397	-
1969	0.364	-
1970	0.324	-
1971	0.294	-
1972	0.282	-
1973	0.319	23404
1974	0.303	24181
1975	0.282	24171
1976	0.256	23916
1977	0.210	21518

Source: Palloix, C, "Industrialisation et Financement lors des Deux Plan Quadriennaux (1970-1977)", Revue du Tiers Monde, Vol 21, no 83, July-September 1980, Paris, pp 552-585.

#### 1.4 Inter-Sectoral Imbalances

The priority given to industrial investment since the second half of the 1960's aggravated the disparities and tensions existing between the development of heavy industry and petrochemicals and that of other sectors of the economy, particularly agriculture, the consumer goods industry, and infrastructure, especially housing, transport and storage facilities. As a result, the prices of many basic consumer goods and services rose sharply leading to a drop in real wages and real incomes with accompanying disincentive effects. Severe shortages of consumer goods and agricultural investment goods became widespread and a number of disequilibria within the heavy industry sector and in the economy as a whole emerged. These inter-sectoral imbalances became one of the most serious obstacles to economic growth. They have restrained the overall rate of development and caused serious bottlenecks and problems

within the priority industrial sector itself.

### 1.5 Excessive Dependence on Foreign Technology

Unable to implement the investment programme using their own planning resources, the public industrial enterprises turned massively to foreign firms, mostly multinationals, who built and equipped complete factories under 'turn-key' and 'product-in-hand' contracts. Such arrangements increased the cost of the industrialisation programme, increased Algeria's technological dependence on the industrialised world and weakened national control over the planning process. They also had the effect of limiting inter-industry integration and the technological coherence of the entire productive sector.

But what went wrong? Two main schools of thought emerged in Algeria in the early 1980's to explain the real causes of these distortions. The first of these attributes these 'disproportions' to the contradictions inherent in the development strategy itself. According to this view, the excessive emphasis on industry aggravated the disparities and tensions existing between the development of industry and that of the other sectors. These inter-sectoral disequilibria have restrained not only the overall rate of development but caused serious bottlenecks in the industrial sector itself. Decisions concerning the choice of production techniques, the size, location and forms of investment projects, were all made within a narrow sectoral context and did not take into account the wider industrial and economic environment (4).

The second school of thought which is of particular interest to the subject of this research, considers the deficiency of the planning system and, in particular, the intense conflicts between various interests within the larger public sector system and their struggle for

power, as the main source of these distortions. Two very broad but conflicting tendencies emerged within the public sector in the late 1970's each having its own interpretation of the real causes underlying the economic and financial distortions. The politicians and central bureaucrats, on the one hand, and the technocrats (i.e. enterprise managers and the industrial ministries), on the other.

To the former, the investment 'debacle' is mainly due to the independent policies adopted by most public enterprises who, recognising the fragility and weakness of the planning system, acquired considerable economic powers and got their way in opposition to the wishes of the state's top economic planners. To the technocrats, the failure of the industrialisation strategy is largely due to the external constraints and obstacles placed on them by the over-rigid institutional and social context in which they operate. They particularly refer to the centralised system of planning investment and the complete subordination of the enterprises to the central administration.

This Chapter will attempt to examine the planning of investment in Algeria as it prevailed in the pre-reform period. The objective is to try to assess these claims and show that the observed distortions are the result of the system itself and its modus operandi.

## 2 THE PLANNING AND CONTROL OF ENTERPRISE INVESTMENT

### 2.1 The Institutional Framework and Its Development

In order to facilitate the implementation of planned investment a number of financial and planning measures were introduced in 1970. As a rule, these measures were intended to integrate the investment decisions of the enterprises into the national planning system.

Under the 1970 regulations no public sector investment can be carried out until it has been approved by the central authorities and provided with a financing plan. Under this system, the final decision whether to accept or reject an investment proposal formally rests with the central planning office (the Secretary of State for Planning between 1970 and 1979 and, since that date, the Ministry of Planning); and the decision to finance the project rests with the Ministry of Finance. The financial and banking institutions were assigned a more subordinate role in the planning system. Their main task was to channel centralised investment funds to enterprises and to control the implementation of these projects. Moreover, in order to achieve the aims sought by the centralisation of investment decisions and resources, public enterprises were instructed to deal with no more than one bank at a time. The banks were required to provide capital funds only for those investments which had been accepted and approved by the central planning office. In order to make sure that investment decisions do not escape central control, a clear distinction has been made between the investment and production activities of the public enterprises. The two activities were kept in separate accounts and the financing of expansion operations from the enterprises' current revenues or from bank overdrafts was prohibited.

Another major change brought about by the 1970 financial regulations was the limitation put on self-financing by public sector enterprises. They were not allowed to keep their depreciation allowances and reserves. These were appropriated by the state budget in repayment of their contracted investment loans. Furthermore, up to 1974 public enterprises were required to hand back part of their achieved profits to the Treasury as a contribution to national savings.

Finally, the 1970 financial reforms proposed a transition from

budget financing to the use of credit for investment and working capital. The introduction of credit in capital construction was seen as an effective way of combatting the wasteful and extravagant use of capital funds which had been associated with the previous regime of free budgetary grants. By introducing the principle of financing investment by credit the authorities were also hoping to maximise the funds available for accumulation through the obligation placed on enterprises to reimburse their contracted loans. It was with the same objective in mind that all forms of budgetary subsidies to productive activities were abolished. It would appear that the shift to credit as a source of financing was also welcomed by the managements of enterprises who, given their ambitious development targets, badly needed financial resources to achieve them, in addition to the inadequate funds supplied from budgetary resources. The adoption of credit financing has also meant that the enterprises are now able to raise funds from local and foreign funding institutions.

## 2.2 The Planning Process

The object of this analysis of the planning process is to determine the locus of the decision-making authority in the area of investment and to see how the planning objectives formulated by the growth strategy are (or are not) translated into an internally consistent programme. Enterprise investment decisions are made within a fairly complex administrative structure which operates mainly according to civil service rules. Furthermore, most decision processes above the enterprise level are little known to the external observer. Despite a number of attempts by the central planners in the 1970's to formalise the planning process and institutionalise it in legal terms, its form was never finally settled. The real world decision process involves a myriad of influences of an administrative

and 'political' nature. In what follows attention will be focused on a somewhat idealised construction of the annual investment plan as it operated in the 1970's (5).

A target rate of capital accumulation is fixed by the government (the Council of Ministers). On the basis of the development targets set by the sectoral ministries for the various branches of industry and the long-term economic and political priorities fixed by the government, the central planning office establishes aggregate targets for each sector and allocates the appropriate capital funds to achieve them.

Before launching any investment project, public enterprises are instructed to prepare an investment report or a pre-investment study for each investment project, applying a uniform procedure commonly known as the 'technical-economic study'. This report, which contains detailed, standardised data about the cost structure of the project and its technical specifications, is the main basis for an executive decision on the acceptance, revision or rejection of investment request. Work on the feasibility study of the project usually involves a number of iterations between the enterprise and the parent ministry (6). This report, when complete, is sent under the responsibility of the sectoral ministry to the planning authority and the financial agencies.

The central planning office then, at least in theory, evaluates the investment project and subjects it to further scrutiny. The outcome may be either acceptance, revision or rejection of the investment request. If the project is accepted by the planning authority it is then said that it has been 'individualised', that is approved and included in the 'nomenclature' of the annual plan.

All successful projects must go to the Banque Algérienne de

Développement, or BAD, which provides them with adequate financing resources (financing plan). It should be noted that the construction of the financing plan by the BAD is a complex procedure involving a number of iterations between the Central Banque of Algeria (for transfer of funds abroad), the primary bank (for medium-term funds) and the Treasury (for long-term funds). When all these steps have been completed and when the Ministry of Finance approves the financing plan, the enterprise is then invited to sign a 'Credit Agreement' with the relevant primary bank. This agreement lays down the obligations of each side and states the repayment conditions of the loan (i.e. a schedule for the release of funds, reimbursement time limits, interest charges etc). It is only then that the public enterprise can start the execution of the project.

Finally, if it appears during the implementation of the project, and this is often the case, that the actual costs turn out to be higher than expected, then the enterprise can ask for a re-evaluation of the project. But in this event the project has to go through all the procedures described above for a second time.

Before examining in detail the limitations of this type of planning and control, a number of points need to be made. The first is that the planning of investment in Algeria is not a physical planning system. It is limited to the process of allocating centralised funds to various branches of the economy. All the details involved in the implementation of projects are undertaken by the enterprises themselves. Obviously, this considerably enhances the authority of the enterprises in relation to that of the central administration. The next point concerns the role played by the sectoral ministries in the planning of investment. These intermediate bodies have expanded their powers at the expense of both the central

planning office (concerning such issues as the rate of growth, choice of technology, location of plant) and the enterprises (feasibility studies, installation of projects, choice of subcontractors). As mentioned in Chapter Two, the planning of investment in Algeria has suffered greatly as a consequence of the low political status which the central planning office has relative to that of the other functional and sectoral ministries. Finally, the above discussion clearly shows that, as far as investment is concerned, there is no clear dividing line between the centre and enterprises with respect to both the decision making powers and financial resources. The enterprises have no investment strategy of their own and their investments are simply those of the state.

This system of investment planning gave rise to serious conflicts between the state administration and enterprises in the late 1970's. These can be examined under three main headings: the approval procedure; the financing procedure; and the methods of implementation of projects.

### 2.3 The Approval of Public Investment

It has been mentioned previously that the decision to invest was centralised with a view to ensuring that the projects retained in the annual plan are consistent with the overall priorities set by the central policy makers and properly coordinated to ensure the overall coherence of the investment programme. With the intensification of the investment effort, the central planning office lost control over public sector investment in its assessment of the development effort over the 1967-1978 period, the Ministry of Planning admitted that "the investment approval procedure which was intended to assist the planning authorities to check the compatibility of the investment project with



the development plan and to control its cost, the technical norms, the size of output and location (of the project) was ineffective" (7). There are several reasons for this.

### 2.3.1 Inadequate feasibility studies

Although it is the central planning office which specifically approves the bulk of investment in industry, the individual projects, their analysis, and all but the final stamping of approval are initiated by the enterprises and their sponsoring ministries. One reason why the planning authorities failed to exercise control of the 'planned' investment of the enterprises lies precisely in the way in which these investment proposals were framed in the feasibility studies and the degree of accuracy of the information contained in them. In practice, the investment report, which serves as a basis for an executive decision, is very often ill-prepared, incomplete and inaccurate. The so-called technical-economic study is a voluminous document which comprises the following information:

- 1 An estimation of market demand.
- 2 The technical features of the project (engineering study) which describes the physical characteristics of the project, the design of the plan and buildings, the technical aspects of the output.
- 3 The cost of the project broken down over the construction and the installation period and made up of different elements such as site preparation, buildings, and equipment.
- 4 A financial appraisal (financial study). This establishes what the project will cost in budgetary terms and the expected revenues.
- 5 The expected sources of finance (local and foreign sources).
- 6 A timetable for project execution.

Experience has shown that this type of information, which is required by the central planning office to evaluate the project is rarely, if ever, provided with accuracy. Indeed, in very many cases these reports are carried out by foreign consultancy firms which have no knowledge of the local conditions and resources. Even if the problem of obtaining standardised data were to be solved, the ability of the central planning office to evaluate the investment requests is severely restricted by the very limited number of highly trained engineers and economists at its disposal. For instance, the Department of Industry within the Ministry of Planning had at its disposal only five cadres who were in charge of studying more than 400 investment proposals a year in 1981.

At the enterprise level, the poor quality of the feasibility studies is due mainly to the shortage of highly trained technical and managerial teams to design and carry out the complex operations involved in the preparation of investment projects. The absence of adequate data on prices, demand analysis, sources of supply and the lack of costing standards for site preparation and plan construction, were major hindrances to the elaboration of a sound and reliable feasibility study. The enterprises also point out that the pre-investment phase is always uncertain because the project in its early stages is only an 'idea' and the costs related, for instance, to the site of the project, the sources of supply and the technical specifications of the project cannot be assessed with accuracy (8).

Obviously, this type of planning in which the industrial enterprises have considerable powers in the preparation of investment projects enhances their authority in relation to that of the central planning office.

### 2.3.2 Inadequate investment preparation

In the 1970's, the central planning office was not involved in the early stages of preparation of investment projects. These were carried out by the enterprises themselves and the sectoral ministries. When the central planners came to approve the projects they took no account of the conditions under which these projects were to be implemented. The central planning office did not assess the investment proposal in the light of the enterprise's readiness to carry out the project; nor did it ensure that the means for its implementation had been secured before it granted its seal of approval. Under this system each individual enterprise started a large number of projects at the same time but it could not complete them all according to plan due to the presence of various obstacles: difficulty in finding an adequate site, shortages of local construction and engineering facilities, unreliable supply links, inadequate infrastructure facilities and communications, irregular water supplies, shortage of qualified manpower in backward areas. The combined effects of all these obstacles was to cause long delays in the installation of projects and excessive investment costs which distorted the initial cost structure of the projects. The following two examples illustrate these difficulties.

In 1974, SONATRACH subcontracted the construction of an oil refinery in Bejala at a cost of 3 billion AD. It was discovered only two years later that the area on which the project was built was inadequate (unstable soil). The enterprise decided to abandon the project but only after large sums of money had been spent on research and development and on site preparation not to mention the fee paid to the subcontractor (9).

The same enterprise started another project located this time in the region of Arzew. The choice of this region was justified by the

fact that the new factory would use as its inputs the output of another plant belonging to the same enterprise located not far from Arzew. However, when the project entered into operation it was realised that these material inputs were inadequate for use in the new factory because they lost much of their chemical properties on transport. The adverse implications of this problem for the project and the enterprise are obvious.

### 2.3.3 The absence of decision criteria

Another difficulty which the central planning office had to face in its relationship with the public enterprises in the pre-reform period relates to the absence of clearly-specified criteria for the selection of investment projects. As a rule, public sector investment requests were judged on the basis of macro-economic and social considerations. Algerian public enterprises were regarded in the 1970's as engines for industrialisation and socio-economic development. They were charged with a bewildering array of objectives such as the creation of jobs, reduction of regional disparities, construction of a national industrial base, self-sufficiency, inter-sectoral integration, training of workers etc. These extra-enterprise obligations were not identified, quantified and converted into indicators of social performance. Such broadly defined and often conflicting objectives need to be translated into specific tasks and obligations if an unambiguous measure of performance is to be achieved.

In his study of management practices in a sample of public industrial enterprises, A Mettouchi remarked as early as 1975 that the directives of the national plan had been of little practical value in steering the enterprises' behaviour towards the achievement of targets desired by the centre. He gave several reasons for this:

- (a) the national economic plan is presented on a traditional 'branch' basis and makes no mention of the public enterprises;
- (b) the pluri-annual national plan is not disaggregated into annual operational plans;
- (c) the plan does not refer to specific products but to broad product categories;
- (d) the national plan is not the only source of information available to enterprises when constructing their development strategies and formulating their long-term objectives. They also receive directives from their sponsoring ministries (10).

In practice, the distribution of centralised investment funds by the central planning office among various enterprises is fundamentally a function of the "priorities set by the long-term development strategy" (11), and the priority within this strategy given to the so-called industrialising industries; of the estimated revenues from oil and gas exports and of the ability of the enterprises to secure adequate credit from their foreign suppliers. Moreover, the central authorities' appraisal of an investment project is usually made with reference to the costs as defined by the enterprises themselves; and on the basis of the growth targets assigned to each sector in the long-term development strategy. The assessment does not take into account such important factors as the financial viability of the project; the production techniques built into them; the availability of local resources and linkages to other industries. The central planning office have neither the knowledge nor the information required to do so. The investment is, therefore, in the hands of managers and the ministerial staff. This observation explains also why the central planning office lost control over the investment policy and why it was perceived by the enterprises as a 'rubber stamping' institution (12).

In assessing the projects put before them, the staff at the planning authority were involved in comparing the financial costs of different projects on the same basis rather than analysing the economic costs and benefits of these projects (13). The weakness of this method is that it does not allow the identification of the 'extra-enterprise' obligations assigned to the public enterprises by the long-term development strategy and the computation of the incidence of these obligations on the revenue of the enterprise. Worse still, the central planning office paid little attention to the overall financial position of the enterprises making the investment request or the financial viability of the project. In this sense, it was dealing with 'projects' and not with 'enterprises'. One manifestation of this in the pre-reform period is that the public enterprises were allowed to invest and expand at a very rapid rate despite their manifest inability to generate a cash flow sufficient to secure their own expansion and to pay the loans contracted with the local and foreign funding institutions.

It became evident at the end of the 1970's that the absence of a clear cut investment criteria had serious consequences for both the central planner and the enterprise. First, it was held responsible for the 'investment mania' in Algeria. The priority given to rapid industrialisation combined with the absence of responsibility for unsuccessful investment decisions induced enterprises to step up their claims for centralised funds by 'hiking themselves on to the plan', a tendency which was stronger the lower the level at which the investment decisions were taken. Secondly, the absence of clear investment decision rules resulted in serious mistakes made in the choice of the production techniques utilised, the size of plant and its location (14). Finally, as will be shown later in this Chapter, the

lack of clear investment parameters for the allocation of central funds has been a major source for the undisguised and never-ending conflicts between the enterprises and the banking system.

The Minister of Finance described the collapse of central investment planning at the end of the 1970's in the following terms: "A logic has developed among enterprises in which the investment decision escaped the control of the central planners who very often have no other option but to accept the project as it stands" (15). This happened in a number of ways:

- (a) The enterprises (and their sponsoring ministries) often enter into contracts with constructors well before the project is approved by the planning authority
- (b) The modification of projects by enterprise on their own initiative.
- (c) The implementation of 'private' or unauthorised investment projects and their financing from the enterprises current revenues or by short-term bank loans.

#### 2.3.4 Delays in the approval procedure

Paradoxically, the investment review procedure applied in the 1970's failed not only to assist the planning authority to exercise a tight control over the country's investment policy and to keep the investment costs within reasonable limits but actually contributed to cost increases. There is ample evidence that the central planning office took a long time before it granted permission to enterprises to start their investment operations. Delays of up to two years occurred very frequently. The public enterprises have always complained about this problem, pointing to its adverse inflationary effects on the costs of investment projects. The three following cases illustrate the scale of this problem (16).

**Case 1** In June 1977, SONITEX (textiles) signed a contract with an Italian firm, SNAM, for the construction of a textile factory in Merouana at a cost of 333.8 AD million. The central planning office took 14 months to approve the project. Consequently, the Italian firm asked for a 25 per cent increase in the initial cost of the project not to mentioned the interest charges on the loan made available to it by the subcontractor.

**Case 2** In June 1977, the SNIC (chemicals) subcontracted the installation of a chemical plant at Lakhdaria to a French firm SPECHIM at a price of 403 AD million. The project was held up for several months due to a delay in the approval procedure. In consequence, the French firm claimed a 19.47 AD million increase in the contracted cost plus a 10 AD million interest charges on the loan granted to the Algerian firm. The additional costs had to be paid in hard currency.

**Case 3** In the same year, SONIC (paper and cellulose) signed a contract with a West German firm for the installation of a factory producing a variety of school articles at a fee of 16.55 AD million. It took the central planning office 15 months to approve the project. As a result of this delay, the German firm claimed a 10 per cent increase in the initial price paid entirely in foreign currency.

#### 2.3.5 Cuts in capital expenditures

Public enterprises have repeatedly claimed that the capital expenditures allocated by the central planning office to their investment projects fell well below the levels requested in the feasibility studies. Under the circumstances the public enterprise has two options:

- (a) modify the project, i.e. reduce size or capacity;
- (b) start the project and apply for a re-evaluation of the initial



cost.

This latter option proved in practice to have adverse consequences on the final cost of the project, because the project will then have to travel once again through the planning cycle described which takes considerable time thus lengthening even further project installation periods.

Table 3 Cuts in capital expenditures requested by enterprises in the heavy industry sector (1970-1977)

Project	Actual funds as a percentage of requested funds
<u>First Four-Year Plan</u>	
Electrical wires	62.6
Telephone cables	43.2
Electrical engineering	100
Electrification	73.4
Lighting equipment	0.10
Batteries & accumulators	61.0
Household appliances	56.0
<u>Second Four-Year Plan</u>	
TV and Hi Fi equipment	62.4
Telephone equipment	81.0
Bulbs (Mohammadia)	70.5
Repair workshop (Oran)	69.0
Repair workshop (Annaba)	71.0

Source: Révolution Africaine, no 825, May 14, 1979.

#### 2.4 The Financing of Enterprises' Investment and Bank Control

The above discussion of the investment planning cycle shows that the Algerian Bank for Development (BAD) and the primary banks play a key role in the decision-making process. The primary function of the BAD is to provide the investment projects approved by the central planning office with adequate financial resources. A technical committee meets on a regular basis to examine the projects and to choose the most suitable sources of finance for them (17). In

constructing the financing plan, the committee is instructed to take into consideration the following elements:

- (a) the expected financial returns;
- (b) the external constraints placed on the enterprise;
- (c) the overall financial position of the enterprise;
- (d) the specific nature of the investment (18).

According to the Ministry of Finance, the aim of these guidelines is to assist the BAD to "adapt the credits to the specific nature of each project" (19). It should be noted, however, that the authority of the BAD is very restricted in this respect since it cannot reject the project, modify it, or withhold payment. It has a formal obligation to provide funds for all projects approved by the central planning office.

Because the 1970 financial regulations prohibited self-financing and suspended all forms of budgetary grants to the productive sector, public enterprises' investment operations have been financed exclusively by medium and long-term credits. As a rule, the medium-term loans are granted either by the Algerian primary banks or by the foreign subcontractors (or their governments). Long-term credits, in contrast, are provided by the BAD or raised by the Algerian banks on behalf of the enterprises in the international financial market (20). When a satisfactory financing plan is worked out by the BAD it is then sent to the Ministry of Finance for final approval and inclusion in the annual budget.

The primary bank has a two-fold role in the planning of investments: to channel the capital funds to enterprises and to control the implementation of the investment projects. Before releasing the funds the primary bank must first ascertain that the project is actually authorised and is endowed with the necessary funds. It must

also verify that the funds requested by the enterprise are well within the limits prescribed by the plan.

The planning procedure and the financial system described above worked very badly in practice. It produced severe conflicts between the enterprises and the banking institutions. It has also been held responsible for many of the distortions which occurred in the system of investment planning. By the end of the 1970's, neither the banks nor the enterprises were happy about the way in which the system worked. The system was criticised on several grounds.

#### 2.4.1 Inadequate financing patters

The financing plans constructed by the BAD and to which the banks refer in their control operations, did not match the real world requirements of the project. As a rule, the actual financial requirements of the project during its implementation are far in excess of the planned funds. The inadequacy of the financing plan is due to a number of factors: lack of coordination between the bank, the central planning office and the enterprise during the early stages of project preparation; the unreliability of the feasibility studies; the excessive investment costs following delays in the construction of projects and the central planners' deliberate policy of cutting the capital funds requested by the enterprises. One significant consequence of these problems is that many medium-term loans used in the 1970's to finance industrial projects came to maturity even before the projects were completed. The enterprises have frequently raised this problem during the reform debate, arguing that under the circumstances they had no other alternative but to go to the bank to ask for short-term loans (ie. overdrafts) thus increasing even further their debt problem.

#### 2.4.2 The distorted role of credit

As will be shown in Chapter Eight, the intensification of the investment effort, the delays in the installation of projects and the subsequent rise in their costs have had profoundly adverse effects on the finances of the public industrial enterprises. In 1980, the great majority had reached a position where none of them was able to repay their long-term investment loans. Moreover, the recovery of the external and medium-term bank loans was achieved only at a high price. Since these loans are rediscounted at (i.e. financed by) the Central Bank of Algeria their repayment involved an expansion of money supply. The scale of this was significant enough to cause inflationary pressures. This state of affairs has triggered off a tremendous feeling of resentment on the part of the banks and financial institutions who have been highly critical of not only the system of financing public sector investments but also of the whole industrialisation strategy carried out by the enterprises and the sectoral ministries. Their criticisms focussed on two main issues.

The first relates to the ineffectiveness of the controls exercised by the banks. Their role was reduced to 'dressing' the projects approved by the central planning office with financing plans. However, because of the high number of industrial projects which they had to handle and the complexity of the administrative tasks involved, the banks took a long time to verify the projects and provide them with adequate funds. These delays provoked frustration and anger among the managers who saw them as an additional source of delay in the installation of their investment projects.

The other criticism made of the financial system is the distortion of 'credit' and the marginal role played by the banks in investment planning. This arises from the neglect of financial aspects when

investment projects are selected. Some economists have suggested that the primary task of the banks in the pre-reform period was not to grant 'credits' to enterprises but to handle their 'debts' (21). This is so because the financing of investment in Algeria does not proceed on the basis that loans should be repaid by enterprises within a prescribed term. In fact the enterprises were under no effective constraint to generate revenues sufficient to pay off their debts. Moreover, the enterprises did not pay for the financial resources at their disposal; these were considered by the enterprise as essentially free of charge. The interest rates applied by the Algerian banks were held at a ridiculously low level (2 to 5.5 per cent) in relation to the high rates of inflation (12 to 20 per cent) and did not reflect the opportunity cost of capital. These low, or more precisely, negative interest rates were held responsible for the investment mania in Algeria and for the low efficiency of investment. This criticism was frequently expressed by the banks and financial agencies.

The weakness of the banking system relative to that of the public productive sector in Algeria in the pre-reform period led some economists to conclude that "the monetary constraint is exercised neither by the primary bank nor by the Central Bank; it is 'appropriated' by the public enterprises who have the real monetary power" (22).

#### 2.4.3 The criticisms of the enterprises

Attacks on the financial system came also from the enterprises but this time for different reasons. In their view, the use of credit in financing their investment operations is meaningless under the Algerian system of centralised planning and control. They see the 1970's financial regulations as being unrealistic and far too

demanding. They require the public enterprises not only to be profitable, but to finance their growth operations under a system where investment decisions are made by external agencies, and where the enterprises have no control over their financial resources.

The competence of enterprises in investment decisions is very restricted and even such minor investments as maintenance, modernisation and replacement of plant and machinery are decided by the central authorities. The centralisation of such investments combined with the prohibition on self-financing had serious consequences for the enterprises. It led to inadequate maintenance of equipment and machinery, which in turn resulted in frequent work stoppages and chronic underutilisation of productive capacity. To overcome this problem, the enterprises were in many cases forced to use their current revenues to finance these investments, thus overstressing their meagre resources. It has also been argued that the financing of enterprises' investment operations exclusively by credit meant in practice that the interest charges have become quite a burden for the enterprises especially given the high growth rates assigned to them by the central planners.

A final complaint by the enterprises was that in carrying out their investment projects they had to take in charge a number of 'extra-enterprise' expenditures such as those incurred in the preparation of the pre-investment studies, the site of the project and infrastructure facilities, the training of workers. Up to 1979 the costs of these operations which have no immediate returns to the enterprise, had been financed by interest-bearing bank loans when they should have been borne by the state budget.

## 2.5 The Forms of Project Implementation

It may be recalled from an earlier section that the implementation

of investment projects is decentralised. The enterprises have full responsibility for the implementation of their investment projects. They have large powers of choice regarding the methods of project construction, the subcontractors, the sources of supply, the production technologies, and in determining the details of the construction operations.

Here again there was a large gap between the plan and the actual outcome. Unable to implement the investment using their own planning resources, the enterprises turned massively to foreign firms, mostly transnationals, who built and equipped complete factories under 'turn-key' and 'product-in-hand' contracts. The balance sheet of the development record carried out in the late 1970's has been highly critical of the policies adopted by the public enterprises in this area. These elaborate forms of technology transfer, it is argued, increased the cost of the investment programme, strengthened Algeria's technological dependence on the industrialised nations, restricted inter-sectoral integration and weakened the technological coherence of the entire productive sector and national control over the planning process. Critics of this process frequently refer to the 'illusion' and 'myth' of the technology transfer (23). Three issues in particular are raised.

The first is that the public enterprises were not tough enough in their bargaining with the multinationals. They tended to accept certain restrictive conditions and clauses in the contract which placed the multinationals in a position of strength. Thus, the Algerian enterprises are reported to have frequently accepted too readily the subcontractor's demands for price revisions while the initial contracts are concluded on the basis of firm and irrevocable prices. In many other instances the enterprises concluded contracts which give large

powers to the subcontractors on the revision of initial prices (24).

Table 4 shows that the number of 'turn-key' and 'product-in-hand' contracts which hardly existed at all in the late 1960's increased rapidly in the 1970's.

Table 4 Changes in the forms of import of technology

Type of contract	<u>No of Contracts</u>		
	Before 1969	1970-1973	1974-1977
Engineering contracts	16	16	13
Contracts for the delivery and installation of equipment	30	34	19
Project installation contracts	18	15	42
Turn-key contracts	16	27	58
Product-in-hand contracts	0	1	16
Joint-ventures	5	7	8
Total	75	100	116

Source: Yachir, F, "Les Flux d'Importation de Technologie dans le Secteur Industriel Public en Algérie", RASJEP, no 4, December 1980, p 6.

Under these formulae, the foreign subcontractor is responsible not only for the installation of the project, but also for the training of the Algerian workers and for the daily running of the factory until it reaches a satisfactory working capacity. These forms of technology transfer proved very expensive and thus increased considerably the cost of investment in Algeria. More importance perhaps is the fact that they offered little opportunity to the Algerian workers, engineers and technicians to acquire experience and new skills in the installation of projects, thus impairing the development of an indigenous technology. In a famous study, Glasman concluded that the Algerian cadres of the



public sector are in charge of administrative problems whereas the foreign experts and cadres are in charge of technological matters. According to this author there is in Algeria "a technocracy without a technology" (25).

A final criticism of public enterprises was that they leant too heavily on foreign firms not only for the construction of the industrial projects but also for the choice of technology. It has become a common practice in Algeria that the public enterprises entrust the technical study, the design of the plant, the choice of sources of supply, the choice of technology and the construction of the plant, to one multinational firm. Algerian firms, therefore lost control over the projects. The multinationals have installed the 'most sophisticated' and 'latest' technology available in the world. These technologies increased Algeria's technological dependence and proved to be incompatible with the local conditions and constraints. In his reflection on the impact of these forms of transfer of technology on national planning, one Algerian economist suggested that in the 1970's "the national economic plan is constructed on the basis of the offers made by the overseas firms" (26).

### 3 CONCLUSION

This Chapter began with a brief outline of the investment crisis in Algeria in the second half of the 1970's; then moved to an examination of the planning and control mechanisms involved in investment decisions. The objective was to show that public enterprise investment decisions in the pre-reform period were made within the framework of a complex planning system which is run on purely civil service rules. Under this system, there is no dividing line between the state and the enterprises. In fact, the absence of

clearly defined criteria for the allocation of central funds combined with the acceleration of investment and the over-rigid planning system produced serious distortions in the economy and led to conflicts between the state and enterprises.

#### Footnotes to Chapter Four

- 1 The Ministry of Planning, "Synthèse du Bilan Economiques et Social de la Décennie 1967-1978", May 1980, Algiers, p 2.
- 2 Ibid, pp 3-10.
- 3 Ibid pp 3-4.
- 4 Thierry, S P, "La Crise du Secteur Productif Algérien", University of Grenoble, 1981, France, pp 2-5.
- 5 Bouzidi, A, "Questions Actuelles de La Planification Algérienne", ENAPAL/ENAL, 1984, Algiers, pp 26-29.
- 6 Project design and engineering studies are very often entrusted by the enterprises or the sponsoring ministries to foreign consultancy and engineering firms.
- 7 The Ministry of Planning, op cit, p 322.
- 8 Boukendour, S, "Contribution à l'Analyse des Processus de Gestion des Investissements des Entreprises Publiques Algériennes", Doctoral thesis submitted at the IEC, University of Grenoble, 1983, p 193.
- 9 These examples are extracted from report published by Revolution Africaine no 825, December 14, 1979, Algiers.
- 10 Mettouchi, H A, "Les Systèmes de Planification et de Gestion de l'Entreprise Publique Algérienne Approche Organisationnelle du Développement des Entreprises du Secteur de Transformation des Métaux", Doctoral dissertation submitted at the IAE, University of Grenoble, 1975, p 236.
- 11 Secretariat d'Etat au Plan, rapport general du Premier Plan Quadriennal (1970-1973), p 213.
- 12 Ministry of Planning, op cit, p 322.
- 13 Boukendour, S found in his research that the project appraisal by the planning authority "serves much more to compare (different projects) on the same basis rather than to appraise their costs and benefits." See op cit, p 209.
- 14 The Ministry of Planning, op cit, p 323.
- 15 Extract from a speech made by the Minister of Finance in 1981, published in la Revue Financiere no 1, January-March 1981.
- 16 Révultion Africaine, op cit.
- 17 The composition of the Committee is as follows:  
Seven members from the financial and banking institutions  
One member from the central planning office  
One member from the relevant sponsoring ministry  
The enterprise has therefore no representation in the Committee.

- 18 Ministry of Finance, "A Propos des Structures Financières de l'Entreprise", Revue Financière, no 3, September 1971.
- 19 El-Moudjahid, November 13, 1978.
- 20 The long-term loans granted by the BAD are not its own funds. The BAD handles these funds on behalf of the Treasury.
- 21 Henni, A, "Le Système Bancaire dans le Développement Economique en Algérie: 'Crédit' ou 'Endettement'?", Paper presented at a seminar held at the Institute of Economics, University of Annaba, April 1984.
- 22 Palloix, C, "Les Entreprises Publiques Algériennes: Contrainte Monétaire et Contrainte Extérieure", paper presented at a seminar on "Organisation et gestion des entreprises publiques en Algérie", held at the Institute of Economics, University of Oran, April 19-22, 1982.
- 23 El-Moudjahid, "Transfer de Technologie - Mythes et Réalités", May 14, 1980.
- 24 Minister of Finance, op cit, p 16.
- 25 Glassman, G and Kramer, J, "Essai sur l'Université et les Cadres en Algérie: Une Technocratie Sans Technologie", 1980, CNRS, Paris, p 85.
- 26 Paper presented by Bouzidi, A, at the seminar held at the Institute of Economics, University of Oran, op cit.

## CHAPTER FIVE

### **THE PLANNING AND CONTROL OF ENTERPRISE IMPORTS**

#### **1 INTRODUCTION**

Central control over foreign trade operations is another important constraint imposed on public enterprises. Import controls greatly affect the economic activity of enterprises by setting tight limits upon their ability to satisfy their import needs. It will be argued in this Chapter that the administrative methods of control which prevailed in the 1970s in this area failed to influence enterprise behaviour in the direction desired by central planners, and did not offer adequate operational flexibility permitting enterprises to secure a continuous flow of imported supplies.

Algeria is heavily involved in foreign trade. Total imports constituted on average about 37 per cent of the country's gross domestic product over the period 1978-1981 (1). In 1980, some 61.39 per cent of imports came from the EEC block; 11.4 per cent from other Western industrialised countries; and 10.1 per cent from North America. On the export side, 92 per cent of total exports went to Western European countries with 48 per cent going to North America, 39.07 per cent to Western Europe and the remaining 8 per cent going to other parts of the world.

The commodity composition of 1979 foreign trade is shown in Table 1 below. On the import side, imports of capital goods and semi-manufactured occupy a privileged position in the overall import bill for 1979 with just over 35 per cent going to the latter and 33 per cent going to the former. The share of foodstuffs, which was relatively lower in the late 1960s, increased to about 16 per cent in 1979.

These figures indicate that Algeria is heavily involved in foreign trade transactions.

Table 1: Composition of Algerian foreign trade in 1979(in percentages)

Product category		Imports	Exports
1	Food, drink and beverages	15.89	1.33
2	Energy and fuels	2.5	93.60
3/4	Raw materials		
	non-manufactures	5.10	0.70
5	Semi-manufactured goods	35.19	0.48
6	Equipment and machinery	32.72	-
7	Consumer goods	8.93	-
8	Miscellaneous	0.22	-
		100.00	100.00

Source: l'Annuaire Statistique de l'Algérie. L'Office National de Statistiques (ONS). 1981. Algiers.

In particular, it relies substantially on foreign markets for the supplies of a wide range of goods and services. Algerian exports, in contrast, are not as much diversified. They are formed almost exclusively of oil and gas shipments to Western countries, 93.6 per cent going to these commodities.

The strategic importance of foreign trade in the Algerian economy and in particular its substantial dependence on foreign sources of supply suggests that success in this area depends to a large extent on the ability of central authorities to work out a flexible but effective control framework so as to harmonise the conflicting interests of enterprises and the state.

## 2 THE ORGANISATION OF STATE MONOPOLY OVER IMPORTS

### 2.1 The Institutional Setting and Its Evolution

The evolution of state intervention in import operations is very

closely related to the development of public sector enterprises. Two distinct periods can be identified in this respect: the first is from 1963 to 1970 and the second from 1970 until the present.

The period 1963-70 was characterised by the dominance of private firms and limited state intervention in import operations. Imports were regulated mainly by means of tariffs, quotas and foreign exchange control procedures. However, in 1964 specialised buyer groups known as "Groupements Professionnels d'Achat", or GPAs, were introduced by the Ministry of Trade. They were designed to act as intermediate links between the state and private firms. These buyer groups, in which the state had a representation, were involved in the distribution of import quotas between the member firms and carried out purchases on their behalf. These groups were formed in five branches of activity: wood products (BIOMEX), textiles (GITEXAL, GAPIT), milk and dairy products (GAIRLAC) and leather and skins (GICP). Although membership of these groups was compulsory, the system was quite flexible and the state exercised little control over the import policy of these groups. However, the groups were to become more and more inconsistent with the institutional nature of the economy which was coming rapidly under state control. It should be noted that in other branches of industry in which there were no groups, import operations were carried out by public enterprise.

In 1970, the GPAs were abolished and a tight system of state monopoly over foreign trade was introduced. The years 1971 and 1972 witnessed important structural changes: the state monopoly over imports was established and systematically delegated to the national public enterprises. In 1971, about 80 per cent of foreign trade transactions were brought under the control of 19 national public enterprises. Although the previous import control procedures were

partly preserved during this period, a new administrative procedure designed to regulate enterprise imports was being introduced. In 1973 a Ministry of Trade ruling formalised this procedure and became what is commonly known now in Algerian public law literature as the "Autorisation Globale d'Importation", or AGI, for short (2). Under this rule, all undertakings, be they private or public, had to state their expected import needs of raw materials, semi-manufactured goods and machinery one year in advance if they were to have any chances of obtaining them. The AGI scheme was further developed and became law in 1974 (3). It has become ever since the predominant procedure governing import operations. The implication of this is that access of private enterprises to foreign suppliers was severely reduced between 1974 and 1978 and abolished altogether in 1978. The rest of this Chapter will be devoted to a close examination of this planning procedure and how it has worked in practice.

## 2.2 Some Organisational Features

As a rule, state monopoly over imports is delegated to national public undertakings. From a sectoral point of view, these may be either production or trade enterprises. While the former are under the administrative authority of the sectoral ministries, the latter are subordinated to the Ministry of Trade. By and large, trade enterprises, which are more recently established and fewer in number, deal in consumer goods. Production enterprises, on the other hand, are numerous and account for a larger share of imports of a wide range of goods and services for both the consumer and producer markets. The AGI system introduced in 1974 involves a two-fold delegation of state monopoly over import operations.

First, from the state directly to the relevant public enterprise. This is called 'exclusive monopoly' (4), or simply monopoly, when the



enterprise in question is the only entity which can import given goods. As a rule, this concerns a number of products included in the so-called list 'A' for which the enterprise has an exclusive monopoly right and which it cannot delegate to other enterprises. These products are also referred to as "AGI/Monopoly". Secondly, from these monopoly enterprises to other user undertakings. This second stage of delegation covers products of list 'B' over which public enterprise has an import monopoly but which it can delegate to other user enterprises (5). This delegation of authority is, however, subject to one important limiting qualification: the products the imports of which have been delegated by the monopoly enterprise cannot be resold by the recipient enterprise. List 'B' usually includes two types of imports classified according to their final destination.

- Imports needed by other enterprises to carry out the day-to-day production operations such as raw materials, semi-manufactured goods, and spare parts. These are usually referred to in the import plan as the "AGI/Current Operations" (6).
- Imports needed for planned investment projects. These include, as their name implies, imports of plant and equipment intended for investment purposes. This type of import is referred to as "AGI/Planned Targets".

Monopoly over imports of list 'B' is often referred to as 'partial or visa monopoly'. The partial monopoly was introduced to relieve the work load on the monopoly enterprise and to make the import system more flexible and effective. Once they get the approval (or visa) of the relevant monopoly enterprise, the recipient enterprises are free to choose their suppliers and the goods to be purchased.

From this brief account of the state monopoly over imports it is clear that public enterprises occupy a central position in the overall picture. It is important to note that public enterprises are allowed to operate directly in world markets once their import plans had been worked out and approved by the central authorities. They are free to seek alternative sources of supply and to choose those that suit them best. Several advantages were claimed for this pattern of organisation (7).

1 Operational flexibility is made possible by the wide powers given to enterprises in their import policies and direct access to world markets. In particular this flexibility ensures a continuous and speedy flow of supplies to the various production units.

2 Since production enterprises are the main importers they will have no interest in buying foreign goods which may compete with their own products.

3 Valuable experience will be acquired by enterprise management through direct contacts and operation in international markets. This experience allows managers to consider alternative sources of supply and the terms of trade associated with them. One particular advantage which is emphasised is that the concentration of import decisions in the hands of few large public enterprises enhances the bargaining power of the Algerian state in its dealings in international markets. Enterprises can obtain considerable economic concessions from their foreign supplies in the form of favourable financing arrangements, cost reductions and speedier deliveries through purchases in bulk.

4 The system opens up possibilities of realising a more efficient transfer of technology due to direct deals and the knowledge acquired of world markets. Production enterprises are in particular better placed to judge the kind of production techniques that should be

imported.

5 The state can, through its specialised institutions, exercise a tight control over foreign currency flows precisely because of the restricted number of enterprises engaging in foreign trade.

While these claims may be questionable, they reflect different conceptions as to how economic power in the public sector should be organised and run, and the vested interests which lie behind this or that pattern of organisation. What is not in doubt, however, is that in practice many deficiencies were found associated with this particular type of organisation. In effect, the spelling out of these deficiencies is the object of the remainder of this Chapter. Here mention will be made of the main organisational weaknesses only.

While the public ownership of foreign trade was effectively achieved in 1974, Algerian central planners and policy makers had only vague ideas as to the most effective way of organising and running this vital sector of the economy. One apt illustration of the highly empirical approach is the issue raised by the distribution of import rights among the various public enterprises. This resulted in practice in constant clashes between them. This conflict of interest is not simply between the production and trade enterprises, which are under the formal authority of different sponsoring ministries; it arises also because of the overlapping of the import rights of various production enterprises within the same sectoral grouping. One example of the conflicts between production and trade enterprises is to be found in the textiles industries. While the production enterprise for textiles (SONITEX) was facing serious problems in disposing of its products in the local market, the trade enterprise (SN.COTEC) which was given formal authority over the imports of these products in 1974, was importing large quantities of textile products and selling them in the

same local market. This is not an isolated case. The same overlapping happened between SONELEC and SONACAT (electrical appliances), SONACOME and ENC (office furniture, household appliances, hardware) and between SN. SEMPAC and ONACO (food and cereal products). These practices were of course very damaging to the production enterprises and undermined the objective of protecting local infant industries.

The second shortcoming is the non-compliance with the rules and regulations introduced in 1974. An example of this is the resale by many user enterprises of imported goods in list 'B' which are intended for their own operations (8). In this way, they enter into direct competition with the exclusive monopoly enterprises. Moreover, the monopoly enterprises did not coordinate their actions in granting their monopoly rights to other user enterprises. This led to duplication of effort and dilution of responsibilities for the imports of many goods.

The last problem which should be mentioned is the highly fragmented character of the state monopoly over imports, that is, the large number of national enterprises engaging directly in foreign markets. This, together with their formal subordination to several different central administrations, has complicated even further the task of the central planners in securing at least some form of rudimentary intersectoral coordination.

The above structural deficiencies should be borne in mind when dealing with the planning and control of enterprise imports which will be discussed next.

### 3 THE PLANNING AND CONTROL OF ENTERPRISE IMPORTS

Prior to 1980, enterprise import decisions were made within the

framework of a procedural system which, if the rules and regulations are strictly interpreted, give little autonomy to enterprises. All enterprises, whether public or private, were required to submit an annual import plan for the coming year to their sponsoring ministries. These enterprise import requests were then negotiated with an interministerial commission chaired by the Ministry of Trade and an overall foreign exchange quota was made available to the enterprise to allow it to meet its import requirements. In a final stage, the actual execution of the import plan was carried out by the enterprise itself under close control by the primary banks and the customs authorities.

### 3.1 The Elaboration of the Enterprise Import Plan

Each public enterprise is required by law to construct an import plan stating its projected import needs of raw materials, semi-manufactures and capital equipment one year ahead. The size and structure of imports are determined by the relevant monopoly enterprise on the basis of the import orders placed by its customers or by estimating the demand for these products in the local market. In order to help the central authorities distribute the foreign exchange funds among its various uses, public enterprises were required to classify their import requests into three main categories: imports which will be carried out by the monopoly enterprises and sold to the final users or consumers (AGI/Monopoly), imports destined for specific planned investment projects (AGI/Planned Targets) and imports for their own use (AGI/Current Operations). When these import programmes are worked out by enterprises they are then transmitted through the sponsoring ministry to the Ministry of Trade. On the basis of these micro import plans, an Interministerial Commission chaired by the Ministry of Trade deliberates and constructs the National Import Plan

(Programme Général d'Importation, or PGI). Enterprise plans are finally approved and a foreign currency quota is allocated to each individual enterprise to carry out its import plan. It should be recalled that the "Import Authoritisation Procedure" or AGI, is a right granted by the Ministry of Trade to the enterprise to import and it is at the same time an amount of foreign currency allocated to it to carry out its requirements.

On what basis were these AGIs granted? There had been, up to 1980, no formal and clearly defined criteria for the allocation of foreign currency reserves among public enterprises. But it is clear that the decisions made by the Ministry of Trade were the result of bargaining that took place within the Interministerial Commission. However, the outcome is generally determined by several factors. One important factor is the commitment to economic growth in the national economic plan. This meant that import quotas were more or less determined by the investment and production targets embodied in the annual economic plan and investments already in progress. For instance, producer and intermediate products have traditionally been given first priority in import decisions in Algeria. Another factor is the balance of payments constraint. In particular, the expected revenues from oil and gas exports had a considerable bearing on the size of imports. Another related element was the ability of the public enterprise in question to secure favourable credit terms from its foreign suppliers or from their governments.

One striking feature of the working of the state monopoly over imports in the 1970s was the absence of economic analysis of the contribution of imports to either the national economy or to the enterprises. The central authorities were unable to evaluate carefully and precisely the import needs of enterprises. One

important point which should be noted here is that neither the Ministry of Trade nor the sponsoring ministries were involved in the detailed decisions as to what or how much ought to be imported by public enterprises. It was in fact the public enterprises who decided, within the credits limits set for them and the type of products requested in their import plans, which products should be imported and the size and structure of their import purchases. This inevitably decentralises considerable power over imports to the level of the enterprise. Moreover, in the case of an AGI/Monopoly, the foreign exchange quota was usually allocated to that enterprise which had an exclusive dealing in a particular product group, which in turn was responsible for the allocation of this quota among the various recipient enterprises. It was in effect this monopoly enterprise and not the Ministry of Trade which exercised whatever choice was delegated to it by the Ministry in determining the share going to each recipient enterprise.

Although domestic markets were not insulated from foreign markets, the financial balance of the enterprise directly or indirectly engaging in foreign trade in no way indicates the extent to which their import activities are consistent with an efficient use of resources at the enterprise level and in national terms. This is so for three main reasons.

Firstly, prices of domestic factor inputs do not necessarily reflect factor costs. Home prices were administratively fixed and were poor indicators of the relative scarcities of factors. The implication of this is that decisions as to whether to import an item or to produce it locally may be distorted because they are based on wrong calculations.

Secondly, there exist no shadow exchange rates even in an informal

sense which would reflect some of the preferences and priorities of the central planners. Algeria uses one single exchange rate for all her trading partners. In view of the fact that the Algerian currency, the Dinar, is inconvertible, the public enterprises did not have the necessary information to permit them to make rational import decisions. Furthermore, the exchange rate, which is set officially, has traditionally over-valued the Dinar. Because of the high rate of inflation and the persistent shortages of producer, intermediate and consumer goods in the local market, public enterprises find it more advantageous (and cheaper) to import these goods at the official rate of exchange than to buy them from local markets. This may result in considerable waste of scarce resources and in reinforcing the country's dependence on external markets.

A third and last reason, has been the inability of most Algerian public enterprises to finance their import purchases from their own operations. On the one hand, self-financing was not allowed in public enterprises. On the other, public enterprises did not, with the exception of the national oil enterprise, SONATRACH, produce for exports and consequently it was not possible to establish a link between the import requests of enterprises and their contribution to exports.

Theoretically, it is through the power to grant or refuse enterprise import demands that the Ministry of Trade influences the size and structure of enterprise imports and directs transactions to one or another trading-partner country in the light of the overall balance of payments objectives as well as political and other considerations. This operational control could obviously be of great importance. However, experience in the 1970s shows quite clearly that this type of control did not exist (9).



Absence of clearly defined criteria for the allocation of central foreign exchange reserves among public enterprises resulted in practice in the rise of strong conflicts of interest between the enterprises and the central authorities when the import plan was worked out. The enterprise, as a user of inputs as well as a distributor to other enterprises, had every interest to ensure an adequate and regular flow of the imported goods it required. Aware of the prevailing state of disequilibrium that characterises the supply system in Algeria, enterprise managers tended to inflate their import requirements in order to provide a security margin for the fulfilment of their production and investment targets. The central planners, in anticipation of this type of behaviour on the part of enterprise managers and in the light of balance of payments constraints, would try to cut some of the fat and allocate import quotas well below those requested by enterprises. N. Bouzidi described this type of behaviour as follows: "Because of the limits imposed by balance of payments constraints, the approach which seems to have guided central arbitration was to reduce systematically the import requests of enterprises. The latter will, in turn and for precisely the same reason, overestimate their import requests" (10).

In practice, public enterprises could overcome this problem and were able to obtain continuous import supplies only through the adoption of two strategies: first, the withholding and/or distortion of information regarding their real import needs and, secondly, the hoarding of all types of goods in short supply. With regards to the distortion of information, A Bouzidi noted that "the enterprise has in effect succeeded, through a system of cheating to impose its working methods and defend its interests with the central authorities being unable to do anything about it" (11). As far as the hoarding of

material inputs is concerned, evidence comes this time from the Ministry of Light Industries. "It may be worthwhile noting the practice of holding excessive stocks in enterprises. These practices are the result of the deadly-slow import administrative procedures. Where an European industrialist stocks one item, an Algerian industrialist must often stock three items to face the possible shortage of supplies. This practice of holding excessive stock levels applies to spare parts as well as to consumables and raw materials" (12).

As for import quotas distributed by the monopoly enterprises, these enterprises seem to have been influenced by two considerations. The first of these is the awareness of the propensity of most user enterprises to inflate their import proposals, the phenomenon mentioned above. The second is the need to give priority to their own needs before the user enterprises' requirements are considered. The quotas for the user enterprises are then unequally distributed between public and private firms with a particular preference given to the former. It is not hard to see under these circumstances why the monopoly enterprises failed in the 1970s to meet the actual needs of their client enterprises.

The above discussion would suggest that the function of the Ministry of Trade was reduced to adding together the import plans made by each individual enterprise to obtain the national import plan. In other words it meant that the AGI or import plan of the enterprise became in fact a component of the national import plan rather than a natural product of it. Certainly, the import policy of a country, and in particular its balance of payments problems, means more than the summation of various import requests made by enterprises. This deficiency explains the inefficiencies of the a priori controls and the

failure of central authorities to elaborate a stable and balanced foreign trade policy. The implications of this deficiency will be examined at the end of this Chapter, after an examination of the problems which arise during the implementation of enterprise import plans.

### 3.2 Implementation of Enterprise Import Plans and Bank Controls

It has been indicated above that clashes of interest between the enterprise and the central administration occurred at the time of plan construction. In the process of implementing these decisions, problems are likely to increase as the original forecasts of such import requirements are proved inaccurate. Formally, it is the Ministry of Trade which is responsible for supervising the imports by enterprises (13). This control is carried out at three levels:

- 1 Enterprises are required by law to transmit regular reports to the Ministry of Trade on their import operations.
- 2 The banks through which foreign exchange quotas are channelled to enterprises prepare monthly reports on the imports of each enterprise which is in receipt of an AGI quota.
- 3 The customs authorities exercise the physical verification of enterprise imports.

In practice, however, the Ministry of Trade played no role in this control. This function is carried out by the primary banks and the customs office applying strict administrative instructions issued by the Ministry of Finance.

In fact, the difficulty of working out an appropriate control mechanism within the framework of the national economic plan to ensure that import credits made available to enterprises will be used in a manner consistent with national plan objectives, throws a tremendous

burden upon the Ministry of Finance. In the absence of clearly specified criteria for measuring the efficiency of enterprise imports from the standpoint of either the national economy or the enterprise itself, the Ministry of Finance faced a dilemma as to the interpretation which it would give to its control function. Two possibilities were open to it.

The first is to instruct the primary banks to exercise control only in aggregate terms. In this case the banks will ascertain that the importing enterprise does not spend in excess of its overall foreign exchange quota and that the goods imported are included in its import plan. Obviously this type of control allows a large room for manoeuvre to public enterprises in their import decisions since they are free to choose the goods to be imported. Its main weakness, however, is that the central authorities can in no way be sure that the import decisions made at enterprise level would be consistent with the national objective. This type of control, therefore, enhances the authority of the public enterprise in relation to that of the state.

The second possibility is that the banks can be instructed to exercise detailed a priori control over enterprise imports. Here the import plan is disaggregated into several component parts and control is carried out by comparing the actual outturns with the estimates of these component parts. The banks will make sure that before even a contract of purchase comes into effect, the import transaction does effectively figure in the import plan of the enterprise and that the value of the transaction is well within the capital limit set for it. Here the banks become a real decision-making authority in the sense that it has a right of view over enterprise import transactions in detail before they are actually carried out. Obviously this type of control restricts the freedom of public enterprises.

Neither of these two types of control which were tried in turns by the Ministry of Finance in the 1970s proved satisfactory. In particular, the latter type of control was described as being interventionist, cumbersome, inadequate and very damaging to the relationships of enterprises with the banking system (14). The following pages will examine some of the rules governing bank controls and demonstrate their effect on enterprise operations.

In order to allow the banks to exercise control over foreign exchange flows and allocate import quotas to public enterprises, the latter were required to centralise all their import operations in one bank account. The rules and regulations dealing with imports and foreign currency controls were issued by the Ministry of Finance. Several directives were issued between 1970 and 1980. A close look at some of these directives will demonstrate the kind of problems involved in this type of regulation.

Directive No. 72 of February 6, 1972 made it compulsory for all importing enterprises to submit their import purchases and investment construction contracts to the banks for scrutiny and approval before they can be put into operation. This meant that enterprises were not free to use their centrally allocated foreign exchange allowances as they saw fit. It is in fact the bank which is going to handle it for them. Moreover, this Directive raised many practical problems for enterprises. The banks took a long time to grant permission to enterprises to start their import operations. It was recognised that the consequences of this type of control were long delays in procurement, work stoppages in many plants and increases in the prices of imported goods. A report prepared by the then Ministry of Industry and Energy illustrates this point. "In general, the administrative framework designed for the purposes of an indispensable control over

imports and foreign exchange is weighing heavily on all importing enterprises. This is due to the length and complexity of the chain of control, the slowness of administration and the banking system, the staff of which are not always aware of the requirements of industry at a time when enterprises are not in full control of their import programmes" (15). The implication of this is that the domestic market was marked by serious rigidities and general shortages. Worse still, this procedure of bank approval was found to induce cheating and false reporting on the part of enterprise managers. A confession made publicly by an enterprise manager in 1976 illustrates this type of behaviour "this Directive is recognised to be inapplicable in both theory and practice because it ignores entirely the mechanisms which determine hard currency flows .... it is at the expense of organised and open cheating and ceaseless efforts that the contracts necessary to the pursuit of our activities can be started and carried out after they had been kept by the bank for several months" (16).

One survey on the causes of excessive costs in Algerian industry carried out for the Ministry of Industry and Energy in the early 1970s indicated that work stoppages and breakdowns due to shortages of imported raw materials and spare parts were very frequent occurrences in most public industrial enterprises which depend heavily on imports. It was estimated for instance that delays in the delivery of imports ranged between four and six months (17).

Moreover, faced with a rigid and cumbersome import system and fearing possible shortages in the future, enterprises tended to hold large stocks of raw materials and spare parts well in excess of their actual needs. One can easily imagine, therefore, the amplitude of the problem and its impact upon the financial balance of the enterprise.

Directive No. 100 of September 4, 1976, which was issued to

clarify the procedures to be used by banks in their handling of enterprises' foreign exchange quotas reasserted that the AGIs would cover a whole year and that enterprises should not spend more than the overall foreign exchange quotas allocated to them. The implementation of this Directive had serious repercussions on the conduct of investment projects by public enterprises. In the case of imports of plant and machinery for investment projects, the installation of which may extend over several years, the enterprises which performed well and were ahead of schedule in the installation of the plant, were penalised for doing so simply because no imports could be made once the annual allocation for that particular project had been used up before the end of the year. However, given the fact that the AGI was delivered only once a year, enterprises were obliged to stop their work until a fresh new AGI was allocated to them within the framework of the import plan of the coming year.

Finally, a close look at the contents of the Directive No. 1, issued by the Ministry of Finance on February 11, 1979 illustrates even more clearly the type of constraints imposed on public enterprises and weaknesses inherent in the administrative system of planning and control. In effect, this directive carried over all the inconsistencies and constraints introduced by the previous regulations (18). The implementation of this Directive in practice produced further problems.

On the one hand, in view of the fact that the national import plan (PGI) is closed on December 31 of each year, no import transactions could take place after this date. This particular restriction failed to take account of the fact that the adoption of the national import plan was officially fixed for 15 September of each year and that, in practice, enterprises were seldom notified of their import quotas

before the end of March. This meant that enterprises were cut off from foreign supplies for more than three months. One can imagine the implications of such bureaucratic rigidities for enterprise operations.

On the other hand, public enterprises were not allowed to combine foreign exchange reserves allocated for the imports of, say, equipment and machinery (ie. AGI/Planned Targets) with funds allocated for the purchase of products for their current operations or for products to be sold to other user enterprises (ie. AGI/Monopoly). Furthermore, enterprises were not free, even within a given AGI, to use funds initially allocated to one major product group to pay for another product group. Cross-use of funds was allowed to take place only between different 'posts' of the same product-category, provided of course that the foreign exchange quota allocated to that particular product-category was not exceeded (19). This last restriction was criticised on two grounds.

First, enterprises could not forecast accurately and in minute detail their import requirements one year ahead. In fact, these estimates were no more than rough approximations made at the time when plans are elaborated. Strict adherence of banks to these estimates simply ignores this important fact. It may be sufficient to refer to the problems encountered in the planning of investments to realise how superfluous and sterile this control may be. Secondly, prohibition of the cross-use of funds meant that public enterprises were no longer free to determine their import priorities at the time when the import plan was being implemented. This lack of freedom produced absurd situations. Savings from funds planned for the imports of one product category could not be used for the purpose of other goods which were badly needed by the enterprise. Moreover, enterprises were not allowed to recover the foreign exchange funds for any cancelled or withdrawn



import orders. Thus, if an Algerian public enterprise wished, for one reason or another, to cancel a contract of purchase then it would automatically lose its claim to these funds. Oddly enough, this legal disposition applies even where there is a breach of contract on the part of the overseas supplier. One economist suggested that this particular administrative restriction may be conducive to waste and misallocation of the country's scarce foreign currency resources. Thus, in order not to lose their centrally allocated funds, enterprises would be urged to use them for the purchase of anything they can get hold of (20).

It must be clear by now that bank control is reduced to an a priori control of a mechanistic and administrative nature closely copied from relationships between public bodies and civil service accountants. Its main focus is the control of enterprises' use of the centrally allocated foreign currency reserves. It is clear, however, that this bank control was neither effective in preventing overestimation of import requests at the planning stage nor an excess of actual costs over the estimates, and the banks encountered many obstacles in their verification.

The vested interests of the banking system in securing a tight control over foreign exchange operations which was not conceived within a comprehensive and coherent framework, jeopardised, through their "sterile and sterilising" administrative procedures, the initial search for a flexible procurement system. In particular, this bank control, because it was a control over the wrong thing, failed to harmonise the interests of enterprises and those of the state. As one commentator noted, "However rigorous the directives of the Ministry of Finance may be .... enterprises have always succeeded in getting round them" (21). Referring to the excessive reliance of most public enterprises on their

foreign suppliers a senior bank manager remarked that, "Past experience has shown that banks granted their seal of approval to enterprise payments abroad on the basis of agreements the terms of which were often worked out by the overseas suppliers and constructors themselves, a situation which clearly satisfies the regulations in their form but not in their spirit" (22).

#### 4 MACRO-ECONOMIC DISTORTIONS

Attention has so far been focused merely on the implications of the rigid and cumbersome import controls for the operations of public enterprises. It has become an accepted fact in recent years in Algeria in the light of the experience of the 1970s that the delegation of state monopoly over imports and the administrative methods of planning and control produced serious adverse effects on the national economy.

##### 4.1 Balance of Payments Problems

The absence of economic and financial criteria for the allocation of the centralised foreign exchange funds among public enterprises has been a significant factor putting acute pressure on the balance of payments. The ambitious development programme; the uncoordinated; direct access of most public enterprises to foreign suppliers; the over-valuation of the domestic currency and the shortages and sellers' market conditions at home have all created a build-in predisposition to excessive imports. Table 2 shows the growing deficits in Algeria's balance of goods and services over the periods of the three development plans.

Imports of goods and services have been growing very rapidly since 1974. This coincided with the launching of the Second Four-Year Plan with its huge investment expenditures. Total imports as a percentage

of the gross domestic product, which measures the propensity of the economy to import, is estimated to have risen from 22.8 per cent in 1967 to 30.1 per cent in 1973 and to the excessive level of 48.1 per cent in 1978 (23). These figures indicate the high degree of dependence of the Algerian economy on foreign markets for its suppliers with all types of goods and services.

Table 2 Trends in Algeria's balance of current operations between 1967 and 1978 (in billions of AD)

	3-Year Plan (1967-69)	1st 4-Year Plan (1970-73)	2nd 4-Year Plan (1974-77)	1978	1967-78
Imports (CAF)	12.481	27.245	90.069	31.698	161.753
Exports (FOB)	12.400	21.718	83.016	25.163	142.243
Balance of trade	-.081	-5.531	-7.639	-6.804	-19.450
Exports of services	1.212	2.275	1.781	1.412	9.981
Imports of services	5.566	6.239	21.855	10.103	43.764
Balance of current operations	4.434	-9.196	-24.116	-15.496	-53.243

Source: Ministry of Planning, "Synthèse du Bilan Economique et Social de la Décennie 1967-1978", May 1980, p 303.

Algerian enterprises have become increasingly involved in foreign trade as more and more imports of raw materials and semi-manufactures are needed for the operation of their newly installed production units. Table 3 indicates the relative importance of this category of goods in total imports. The upward trend in the imports of these types of products indicates that the production capacities installed are far from covering the actual needs of the domestic market and that the production units installed are closely tied to foreign sources of supply in their day-to-day production operations. In both cases, this seems

Table 3 Share of raw materials and semi-manufactures in total imports of goods (1973-1979) in current prices (in billions of AD)

	1973	1974	1975	1976	1977	1978	1979
1 Raw materials & semi-manufactured products	2.503	6.129	6.848	5.857	8.111	12.800	-
2 Total value of imported goods	8.659	16.821	24.117	22.227	29.534	34.439	-
1 as % of 2	35.5	36.4	28.3	26.3	27.0	37.0	40.0

Source: Direction des Statistiques et de la Comptabilité Nationale, 1980, Algiers.

to be contrary to the central planners' official policy of self-sufficiency and economic independence vis-a-vis world markets which manifests itself in the adoption of an intensive industrialisation programme. One would have expected to see, at least, some form of intra and inter-sectoral cooperation to reduce the pressure on the balance of payments. In practice, intra and inter-sectoral linkages have been minimal. The reasons for the absence of inter-enterprise cooperation are various and complex, but three significant factors can be identified.

First, the type of import planning and control where vertical flows of resources and information are predominant, does not permit a wider use of horizontal information emanating from the market and direct contacts between sellers and buyers. In particular, the current processes involved in the planning and rationing of centralised foreign exchange funds among enterprises coupled with the de facto monopoly position of most Algerian public enterprises, do not stimulate managements to rationalise their import decisions. The flow of resources to enterprises is divorced from the success indicator system

and managers are not forced to bear the risks involved in their import decisions. The second reason is the lack of coordination of investment decisions of various enterprises at the time when their investment projects are being approved by the central authorities. Delays in the planning and installation of these investment projects is another reason for lack of industrial integration.

Finally, because of the shortages of manpower and material resources required for the intensive development programmes adopted by most public industrial enterprises, the latter turned massively to foreign suppliers for the realisation of their investment projects. In fact, new and more integrated industrial plants were introduced and became predominant during the second half of the 1970s (24). One of the consequences of this rapid increase in enterprises purchases from abroad is the heterogeneity of the equipment and machinery purchased from various sources of supply; with each market having its own technical norms and specifications. One negative effect of this state of affairs is that the advantages to be derived from forward and backward industrial linkages are not obtained. It also increases the risk that Algerian industry will remain perpetually dependent on these same sources of supply including all sorts of intermediate products (ie. semi-products and spare parts) and the advisory services related to them.

#### 4.2 Increased Dependence on Foreign Advisory Services

The import of foreign technology and know-how is another area in which clashes of interests between the state and public enterprises occurred. In the 1970s the public enterprises relied to an increasing extent on foreign expertise and know-how not only for the realisation of their investment projects but also for the running of their current

operations. It was estimated that over the period 1973-78 alone, Algeria spent more than 28 AD billion on external advisory services, a figure which ranks the country high in the list of those developing countries purchasing foreign technologies. Trends in the development of total expenditure on foreign technical assistance are shown in Table 4 below. The proportion of the costs of contracts represented by technical assistance rose from 28 per cent in 1973 to about 39 per cent in 1978 with the highest level of 45 per cent being reached in 1977. Moreover, imports of these 'advisory services' tended to shift from the simplest form of pre-investment studies to the hiring of experts and qualified personnel to run the production operations.

Not unexpectedly, industrial enterprises occupy a central position in the imports of these services as more than 96 per cent of the funds transferred abroad were made by them in 1978. 75 per cent of enterprise imports of these services came from the EEC countries in the same year.

Table 4 Total cost of technical assistance over the period 1973-78 in current prices (in billions of AD)

Year	Number of contracts	Total value of contracts (1)	Cost of technical assistance (2)	1 as % of 2
1973	511	3.6	1.0	27.7%
1974	689	8.9	2.7	30.3%
1975	891	14.4	4.7	33.5%
1976	939	15.3	5.0	32.6%
1977	936	14.6	6.6	42.2%
1978	946	<u>22.3</u> 29.4	<u>8.6</u> 28.8	38.6%

Source: Ministry of Planning, "Synthèse du Bilan Economique et Social del la Décennie (1967-78)", May 1980, Annexe IV-24, p. 315.

It may be worthwhile noting that imports of these technical facilities were not centrally regulated. In fact, the AGI control procedure relates only to imports of goods and makes no allowance for

them. These were decided upon by enterprises themselves and included in the centrally allocated investment funds.

#### 4.3 External Debt Problems

The direct and uncoordinated access of most Algerian enterprises to the international financial markets has led to a diffusion of authority over the country's external financial policy and to an accelerated rise in the size of external debt. In fact, the ability of public enterprises to secure foreign finance was considered as an important criterion in approving enterprise investment proposals. The relative weakness of the Ministry of Finance in these negotiations has meant that little coordination and control could be exercised over the country's foreign financial relations.

Moreover, the ambitious development schemes adopted by most enterprises and the chaotic circumstances under which these investments were realised together with the deficiencies in the functioning of the newly installed production units have all contributed to increased pressure on Algeria's balance of current operations. Deficits in this balance have been increasing rapidly despite the intensive use of oil and gas revenues. These growing deficits could be financed only from external resources which had reached unprecedented levels at the end of the 1970s. Table 5 below illustrates the estimated external debt. It reached 40 per cent of the gross national product in 1976. The reimbursement of the contracted debts and the services related to them had also been rising steadily over the same period. Expressed as a percentage of total value of exports, these rose from about 3 per cent in 1967 to 39 per cent in 1979.

Table 5 Trends in Algeria's external debt (in billions of US\$)

---

	1974	1975	1976	1977	1978	1979
Estimated external debt	12.6	8.7	13.0	15.3	20.3	25.6
External debt as a % of GNP	24	33	40	-	-	-

---

Source: Table constructed by the author on the basis of data from the World Bank Report, 1982, p 139.

## 5 CONCLUSION

It has been argued in this Chapter that the administrative methods of planning and control of enterprise imports failed to reach a balance between the interests of public enterprises and those of the state. There is ample evidence to support the view that the regulation of enterprise imports by administrative means, in the absence of clearly defined criteria for decision-making, failed to achieve either of the two objectives sought simultaneously by the central planners in their import policy; namely flexibility for enterprise managers in their procurement operations and satisfactory control over the country's external economic relations. The reform of public enterprises is intended to deal with these adverse affects.



## Footnotes to Chapter Five

- 1 The figures for 1978, 1979 and 1981 were 35.98, 30.21, 36.1 and 38.1 percent respectively. These figures were calculated by the author on the basis of information on total value of imports (FOB) and value of gross domestic product, both expressed in current prices provided by the Annuaire Statistique de l'Algérie. Office Nationale des Statistiques, 1980, Algiers, pp 382-384.
- 2 Ministry of Trade. Circular No 21 dated January 20, 1973.
- 3 Ministry of Trade. Ordonnance No 74-12 dated January 30, 1974 and Ordonnance No 74-14 dated January 30, 1974.
- 4 'monopole exclusive' or 'monopole opérationnel'.
- 5 In 1978 public enterprises were required to construct two types of lists for their import requests. The 'A' list comprises those products for which an enterprise has an exclusive import right. As a rule they include goods which are important to the national economy and/or those which are to be produced locally by a public enterprise. List 'B' includes those products for which an enterprise has a right to import but which it can delegate to other user enterprises.
- 6 AGI/Monopoly: AGI/Monopole  
AGI/Current Operations: AGI/Fonctionnement  
AGI/Planned Targets: AGI/Objectifs Planifiés
- 7 Bouzidi, N., "La Fonction Monopole d'Importation de l'Entreprise Publique Algérienne", in La Revue du Centre National d'Etudes et d'Analyses pour la Planification, March 1985, No 1, p 18.
- 8 Ibid, p 19.
- 9 For more details see the study undertaken by the 'Commission des Affaires Economiques of the FLN Party entitled "Etudes sur l'Exercice du Monopole de l'Etat sur le Commerce Extérieur". January 1980, Algiers.
- 10 Bouzidi, N, op cit, p 21.
- 11 Bouzidi, A, "L'Entreprise Publique et l'Etat en Algérie", in la Revue du Centre National d'Etudes et d'Analyses pour la Planification, March 1985, Algiers, No 1, p 6.
- 12 Ministry of the Light Industries, "L'Action à Entreprendre pour Promouvoir une Politique de Productivité", 1979, Algiers, p 123.
- 13 3 Decree No 74-14 dated January 30, 1974
- 14 Bouzidi, N, op cit, p 15.
- 15 Ministry of Industry and Energy, "Industrie 1970", March 1981, Algiers, Vol 2, p 11.

- 16 A statement made by the managing director of the National Steel Enterprise. Quoted by Bouzidi, A, op cit, p 6.
- 17 Institut de Recherche Economique et de Planification (IREP), "Coûts et Surcoûts de l'industrialisation en Algérie: Cas des Industries Mécaniques et Électriques", Université de Grenoble, December 1973, Chapter II, pp 82-85.
- 18 Directive No 70 dated 10.3.1972  
Directive No 72 dated 1.2.1973  
Directive No 94 dated 16.1.1976  
Directive No 100 dated 4.9.1976  
Directive No 101 dated 25.7.1977  
Directive No 105 dated 2.7.1978
- 19 Each type of AGI is further broken down into several product categories which are similar from the standpoint of their physical appearance or from the final use made of them. Each product category or group is given a specific 'tariff position'. Products within a given product group are expressed in quality as well as in foreign currency terms. Individual products within one product category are usually referred to as 'posts'.
- 20 Bouzidi, A, "Questions Actuelles sur la Planification Algérienne", ENAP/ENAL, 1984, Algiers, p 100.
- 21 Bouzidi, A, op cit, p 6.
- 22 Benhalima, M., "Elements sur le Système Bancaire en Algérie". In Cahiers des Sciences Sociales, Université de Annaba, vol 1, No 2, p 58.
- 23 Ministry of Planning, "Synthèse du Bilan Economique et Social de la Décennie 1967-1978", May 1980, p 295.
- 24 See Chapter 4 on the planning of enterprise investments.

## CHAPTER SIX

### **REGULATION OF ENTERPRISE PRODUCTION OPERATIONS**

#### **1 INTRODUCTION**

The problem of goals in a centrally-regulated economy is a controversial one. It was thought in the period prior to the 1980 reform that due to the 'non-contradictory' nature of a socialist economy, since the state's goal reflected in the national economic plan is supreme and the role of the firm as plan executant a subservient one, there could be no conflict between the goals of the state, the firm and its management; and that the latter are determined by the former. Most Algerian official documents implicitly assume that the managers are social welfare maximisers. Managers were assumed to act altruistically in the sense that their utility depends solely on, and increases with, social welfare. Under these restrictive conditions the public managers can be relied upon to implement decentralised decision rules.

Experience of the 1970's showed, however, the limitations of this view. In fact, the central planners' interests may diverge from those of the firm and its employees forming a complex means-end structure where divergent, or even opposing, goals clash. At the pinnacle of the hierarchy of goals are the central planners' goals, rather vaguely defined as the 'maximisation of national income' or 'satisfaction of the social needs' of the population. Management theory as well as practice in centrally-planned economies indicated that, to synchronise management's goals with those of the state or to induce economic behaviour on the part of management, the central planners must recognise what management's goals are and adapt and integrate their network of directives, parameters, performance criteria rewards and

punishments so that the management formula (information-incentives-resource allocation) constitutes an integrated whole with compatible elements all steering the firm and its management in one direction (1).

It is argued in this Chapter that in the pre-reform period the Algerian planners lacked a coherent management mechanism to steer enterprise interests towards the achievement of plan objectives and to stimulate economic behaviour on the part of management. In particular, financial and economic criteria could not be used to influence management decisions because the market was eroded and distorted since it did not lead to results wanted by ideologists. However, nothing has replaced it since planning of production operations was recognised to have been a dismal failure. Worse still, the a priori controls exercised by the various central control agencies failed to achieve the objectives of the state and to force enterprise managements to operate efficiently.

## 2 ENTERPRISE COMPETENCE IN DECISION-MAKING

Despite the extensive formal powers granted to the central administration in its relationship with industrial enterprises and the plethora of direct administrative controls, management did have considerable freedom in the spheres of production activities. Decisions connected with production activities relate mainly to current production which involve decisions on the extent of utilisation of the existing productive capacity and the combination of the factors of production. More concretely, these decisions cover a wide range of activities pertaining to production, procurement, manpower, financing and pricing policies. Moreover, since most Algerian public enterprises were large, vertically-integrated units running their own distribution outlets, the sales function is included in their

production operations.

This freedom stems from the fact that the Algerian central planner in the 1970's did not go so far as to determine in detail the size and structure of production at the level of the enterprise; nor did he tell managements how to combine the various factors of production to obtain a given output. Decisions relating to current operations were made on a decentralised basis, although they were subject to some form of approval.

The First Four-Year Plan (1970-1974) noted in this respect that "from the standpoint of the autonomy of the enterprise in decision-making, the new regulations concern for the time being the centralisation of investment decisions. The production programmes, in contrast, will be drawn up by the national enterprises themselves within the framework of a control system to ensure that their productive capacities are fully utilised and that their policies conform with those of the national objectives. These production programmes, which will be prepared each year by enterprises, will be centrally approved" (2).

As a rule public enterprises did have large powers in decisions relating to current operations. In view of the great diversity both of supply and demand, it was considered practically impossible to plan correctly the expected structure of supply and demand in a centralised way and, therefore, it was not expedient to give exact and compulsory instructions regarding production matters. The stated aim of this decentralised system was to avoid the expansion of bureaucracy into management and to encourage decentralised initiative (3).

Implicit in this overall organisational set-up is the acceptance of the market. The plan was not the only device for the allocation of resources; the market was equally referred to in the regulation of

production and as a source of information to enterprises in decisions relating to the level and mix of output. The supply system was decentralised with enterprises free to seek and establish their own supply links. There were no output and delivery plans imposed from above. In particular, public enterprises were free to determine the quality and quantity of output increases, delivery schedules, packaging and transport details. Moreover, since there were no centrally determined norms for the utilisation of factor inputs, enterprise managements had to define their own inventory levels of various materials and spare parts. They were also free to construct their own internal management and control systems and work procedures. In most calculations for internal decision-making purposes, enterprises were expected to allocate costs free of any central prescriptions. However, in order to facilitate both the horizontal and vertical information flows in the economy and also to be able to exercise some form of control over market relationships, public enterprises were requested to enter into direct medium and long-term contracts with each other (4). Their production plans were in fact expected to be constructed on the basis of the assessment they make of these procurement and market possibilities.

Public enterprise managers had up to 1978 large powers in their manpower decisions. There were no centrally imposed norms for the use and allocation of manpower resources within public sector enterprises. Enterprises could choose the composition of their labour force freely. The salaries of the director-general of the enterprise and his first deputy were frequently determined in reference to salaries paid in the civil service sector. In particular, their salary was fixed independently of the overall performance of the enterprise. Incomes paid out to the workers and the rest of the employees, in contrast,

were up to 1978, determined by a collective agreement between the workers and management, with the agreement being subject to approval by the relevant sponsoring ministry.

However, in the face of the growing wage disparities between the wages paid by public industrial enterprises, the Ministry of Industry and Energy attempted in the early 1970's to elaborate a uniform wage policy for its sector. Indeed, a sectoral salary grid covering around 2000 work posts was established and agreed upon with the collective of workers and became the basic reference in wage negotiations in subsequent years. It should be noted, however, that the intervention of central authorities in this area remained more apparent than real, because it was not conceived within the framework of a comprehensive national policy designed to unify the income and wage policy in all public sector undertakings. Thus, despite the fact that the size of the wage fund and the relative earnings of different skill categories in public industrial enterprises were subject to scrutiny by the sectoral ministry, the former were in general able to secure a wage fund large enough to recruit and attract the type of labour they needed. In 1976 intensive work started on a national salary grid. It was officially declared in 1978 that wage and income decisions should no longer be delegated to public enterprises (5).

In order to meet their growing needs for specific technical and managerial skills, most public industrial enterprises established their own worker training centres. Prior to 1979, the costs of establishing and running these centres were borne by the enterprises themselves although they benefited the whole community.

If public enterprises enjoyed large powers in production, sales and wage decisions, this autonomy is severely restricted in financing and pricing policies. All enterprise financial resources and

operations were kept in one single bank account. The enterprise can borrow from its bank but it cannot lend to banks and other enterprises. The implication of this is that the enterprise has no alternative source of financing. It is subordinated to one single bank for all its operations. All forms of state subsidies were abolished in 1970 with the introduction of debt financing. According to the 1970's regulations, enterprise current operations were to be financed from the sale of goods and services to other enterprises or to the population and, where necessary, from bank loans. Even when a public enterprise is facing serious and persistent financial difficulties, it is not offered a subsidy to restore its balance. Instead, it is offered an interest-bearing and reimbursable bank loan. The rate of interest charged for these loans is usually lower than the going rate of inflation (5.5 per cent).

However, in an attempt to control the aggregate level of credit in the economy, a planning procedure was introduced by the Ministry of Finance in 1970: the financing plan. This new procedure was aimed at controlling the short-term loans to the economy which had reached a significant level. These loans were used to meet the growing needs of public enterprises as a result of their rapid expansion and the financial problems they were facing (6). According to the 1970 financial system, public enterprises were required to assess their working capital requirements one year in advance. Article 30 of the 1970 regulations stipulated that "in order to define their working capital requirements, the national enterprise must communicate to the Ministry of Finance on September the 30th each year at the latest their balance sheet, the planned current operations' account and a statement of the sources of financing of their production (activities) as well as their production plans for the coming year". This control



function was delegated by the Ministry of Finance to the primary banks in 1971 (7).

Because of the difficulty of forecasting with accuracy the financial flows one year in advance, public enterprises were allowed to adjust their forecasts in six-monthly and quarterly plans. In this way, the financing plan became, once approved by the primary bank, the basis for allocating the financial resources to enterprises. In order to force enterprise managers to remain within the credit limits set in their plans, the 1970 regulations empowered the primary bank to charge a fine of 2 per cent for any loans exceeding plans or for failure to reimburse previous loans on schedule. It should be noted, however, that the primary banks were not given the right to stop granting further loans to loss-making enterprises.

The financial autonomy of the public enterprise was also reduced by the fact that most of the newly installed plants were not endowed with an adequate level of working capital to start production on a sound financial basis. Managers have often argued that financing their current operations exclusively by credit simply reinforced even further their subordination to the banking system. As will be shown later in this Chapter, this system worked quite badly in practice.

Another area in which the decision-making authority of the public enterprise was severely limited was the administrative fixing of their prices. Ordonnance No. 75-37 (1975) illustrates well this lack of autonomy (8). It set the rules governing the price policy and the price fixing procedures in major branches of the economy. Although it was formally held that prices should be related to their costs of production, in practice most prices charged by public sector enterprises were administratively fixed and kept unchanged for many years. They reflected mostly political and social priorities mainly

to fight inflation and to subsidise some priority production or a social group. Four main price categories were identified (9):

- 1 Fixed prices: these included prices of basic food products such as cereals, semolina, cooking oil, coffee, sugar ... etc. The prices of these products were kept constant for several years.
- 2 Special prices: these included the prices of products whose costs of production were known to be high but which the government wants to encourage (cotton, tobacco, sugar beet ... etc). They also include industrial goods which are used as inputs to some priority sectors particularly agriculture (eg fertilizer, animal food, agricultural machinery ... etc).
- 3 Stabilised prices: this category of prices comprises most producer goods (ie. iron and steel products, equipment and machinery, fuels, construction materials, electricity and gas). These prices were kept stable over the period of the medium-term plan (4 years). The stated objective was to keep down investment costs.
- 4 Controlled prices: as a rule, these prices can be increased up to certain limits. They include a large section of the light manufacturing industry (eg. shoes, clothing, household appliances).

It is important to note here that in the pre-reform period most prices in the public sector were subject to some form of approval regardless of the category in which they were classified. According to the 1975 Ordonnance mentioned above, prices were determined either by a decree (fixed and special prices), by an inter-ministerial decision (stabilised prices) or negotiated with the Ministry of Trade (controlled prices).

One important consequence for the enterprise of the arbitrary and centralised price system is that profitability could no longer be used

as the basic criterion for economic decisions and measurement of performance. Ironically, the central planners did not have an optimal shadow price system on which to base their policy decisions. They relied mostly on cost data supplied to them by the enterprises themselves. However, most public enterprises, because of the complexity of their internal structures, the multitude of their functions and the deficiency of their internal information systems did not know precisely the cost structures of their products. The absence of any objective criterion for price-fixing together with the administrative freezing of prices over a long period of time and the inflation of costs led to the distortion of the Algerian price system. Prices tended to depart quite considerably from the costs incurred in production and distribution. They also failed to equate supply and demand. Under these circumstances, profitability had little, if any, connection with efficiency.

Failure of prices to reflect market conditions has meant that enormous differences in profit margins may exist not only between two different sectors but also between various product groups within the same sector. In effect, the importance of the concept of profit is necessarily affected by the existence of so many public enterprises which make losses through not fault of their own. It would appear that the Algerian authorities were well aware of this problem. An official document noted in 1977 that: "A distinction must be made between a positive financial result which conceals a bad management and a negative financial result which may fail to reflect the genuine efforts made within public enterprise to improve management and performance" (10).

### 3 PUBLIC ENTERPRISES: DUTY AND PURPOSE

Algerian public industrial enterprises were regarded in the 1970's as engines for industrialisation and rapid socio-economic development. They were charged with a bewildering array of objectives such as the creation of jobs, reduction of regional disparities, construction of a national industrial base, self-sufficiency, inter-sectoral integration, training of workers and social equity ... etc. The issue raised here is not whether public enterprises should or should not carry out non-business functions but rather how these functions can be identified, quantified and converted into indicators of social performance. In fact, these broadly defined and often conflicting objectives need to be translated into specific tasks and obligations. While the integration of these objectives is important in itself, it is also necessary for an unambiguous measurement of performance. Unfortunately, in the Algerian public enterprises business functions were fused with 'public' services and no attempt at even a rough estimation of them was made in the accounting system. Neither was there any attempt to sort out the additional cost of politically dictated tasks (eg. location of plant, administrative price fixing ..etc). Moreover, the vertical mutual dependence between the state and the enterprise in the setting of objectives and the financing of their realisation tended to reinforce the 'public' character of the public industrial enterprise at the expense of its 'business' functions.

Undoubtedly, the confusion in the definition of enterprise objectives, the perpetuation of this confusion over several years coupled with the overlappings in the competence of the state and enterprises, shaped the behaviour of managers. It would appear that the latter formed their own perceptions as to how the system worked and quickly adjusted their policies to cope with its requirements and to

exploit its weaknesses. In fact, considering the size of their operations, their role in the economy, and the special tasks assigned to their enterprises, managements did not construct their production plans on the basis of their perceived interests in the market place. Instead, managers made their own interpretation of the expectations of the leading social forces and tried to conform to them. A declaration made by the director-general of SNS (steel enterprise) in the late 1960's illustrates this point. "In our country, the profitability of these enterprises cannot be calculated and expressed in monetary terms only. As a global phenomenon, the steel industry cannot be seen in isolation from the spillover effects it has. As a source of growth, the steel industry can be assessed only in the long-run and in the light of the dynamic growth it will generate" (11).

This brief outline of the constraints imposed on public enterprise managers in their day-to-day decisions and the ambiguity in the definition of their objectives suggests that the control system for achieving business performance is likely to be soft. In particular, the narrowly drawn role of the market naturally conditioned the choice and evolution of the financial and economic controls exercised by the central administration over the public sector enterprises. But if the public enterprise could not be judged on the basis of 'arms length' negotiation involving more or less objective parameters or universally applied criteria how did the central administration exercise control over the choices made within the enterprises and the economic units subordinated to them? The answer is simple: when the principal cannot control results because he cannot measure performance then he may either be involved in the decision-making process itself or excluded from it altogether. This is the case of most Algerian public enterprises. Before examining the implications of the absence of an

appropriate financial and economic control framework, a close look at the administrative control system used in the 1970's is now in order.

#### 4 CENTRAL CONTROL OVER PRODUCTION OPERATIONS

In the absence of an appropriate financial and economic control framework, the Algerian authorities introduced the concept of the 'enterprise plan' in 1974 as a means of regulating the enterprises' productions activities (12). This document was intended to define, limit and determine the actual operation of the enterprise. It was hoped that the enterprise plan, which is built around the production plan, would perform four main functions:

- 1 To act as a link between the national and enterprise objectives. In particular, this would allow the central planners to verify that the proposals put forward by enterprises are consistent with the general guidelines of the national economic plan.
- 2 To enable both the management of the enterprise and central authorities to assess the quality of work done within the enterprises. The performance of the enterprise is to be judged on the basis of the degree of achievement of planned targets to be negotiated with the collective of workers (ie management and workers).
- 3 To improve the enterprise's relationships with its environment, that is the various central control agencies and other enterprises. As the planning document put it "the construction of a plan covering all aspects of enterprise operations, notably procurement and distribution, will enable enterprises to avoid the danger of bureaucracy and central intervention in their internal affairs" (13).
- 4 To be used as a framework within which industrial democracy is to

be exercised through the participation of workers and employees in the elaboration of these plans and the running of their enterprises.

It should be noted, however, that since the State Secretary for Planning (SEP) was not involved in the planning of production at the national level, it did not give much detail as to how these plans were to be worked out; nor did it offer specific guidelines in respect of the detailed contents of these plans, the planning processes and the timetables involved. As a matter of fact, these matters were left at the discretion of the sponsoring ministries and the enterprises subordinated to them. The Second Four-Year Plan (1974-1977) limited itself to indicating that the enterprise plan should be constructed on the same lines as those of the national economic plan. This means that it should comprise four main facets:

- production plan
- manpower and training plan
- distribution plan (including procurement)
- financing plan

#### 4.1 Planning and Control in Practice

It may be stretching the word too far to speak of planning in Algerian public enterprises, if by planning is meant the process whereby enterprise current operations are regulated by the central administration. It will become clear in the next pages that planning in the sense of a conscious effort which aims to create a sound 'structure of mutual commitments' between the state and the enterprises and between enterprises themselves to achieve a predetermined result was lacking in the Algerian organisation set-up (14). Planning in the 1970's was effectively reduced to a forecasting exercise in which the enterprise tried to determine with more or less accuracy the level of

its operations over the next twelve months and put forward the means needed for achieving them (15).

A closer look at the planning process and the a priori control procedure adopted by the Ministry of Heavy Industry may help one to understand the working of the control system (16). In this Ministry, the construction of the enterprise plan involved three main stages. In the first stage, the management of the basic production units put forward output and sales proposals on the basis of previously achieved levels, the existing productive capacity and a rough estimation of the demand for their products. These targets which are usually expressed in physical terms, had to be discussed and approved in a meeting held with the Management Council of the Unit (CDE) on which workers have representatives. In the second stage, the planning department of the parent enterprise gathers the proposals of the various production units and constructs the production plan of the enterprise. The various components of the draft enterprise plan (ie. output, supplies, manpower) are then discussed in a meeting held with the Management Council of the Enterprise (CDE) and workers representatives (ATE). It is at this stage that the physical planned targets are translated into monetary terms and the budgets of the enterprise and the production units are drafted. It is also at this stage that some form of consistency between the production targets and the resources necessary to achieve them is made by the general management of the enterprise.

In a third phase, these planned targets and the budgets of the enterprise are transmitted to the sponsoring ministry where they will be subject to further negotiation and bargaining with management and workers representatives. The position of the ministry is usually to request an increase in output targets and improvements in the rates of capacity utilisation and labour productivity. Management and workers,



on the other hand, would normally argue that progress can only be very slow due to the external constraints which effect their operations such as the shortages of material inputs, difficulty of obtaining bank loans for renewing some of the enterprise assets, infrastructure bottlenecks, housing and transport problems faced by workers and employees ... etc. In this way, a lengthy bargaining process takes place at this stage in which the wishes of the collective of workers usually prevail (17). Once the plan is approved by the sponsoring ministry it becomes the basic document guiding the management of the enterprise in their future operations and for the evaluation of their performance.

Copies of this plan are also sent to other central bodies such as the Ministry of Trade (sales and import plans), the primary bank (financing plan) and the central planning office. It must be finally noted that during the implementation of these plans, the public enterprises had to prepare and transmit regularly (monthly and quarterly) reports to several central control agencies.

#### 4.2 Contents of the Plan

The plan proposals differed from one sectoral ministry to another but as a rule they were no more than rough estimates concerning production, sales and procurement, manpower and finance (budgets). The production targets were limited to a small range of products often referred to as 'planned products'. At the end of the 1970's, the number of these products was about 150 in the Ministry of Heavy Industry and 90 in the Ministry of Light Industries. Evaluation of enterprises' performance by the sectoral ministries, when it is made at all, was based on a variety of partial, mainly physical, indicators. For example, the following performance indicators were used by the Ministry of Heavy Industry in the period prior to the 1980 reform:

- 1 The output targets of major products in physical terms.
- 2 Rates of capacity utilisation in each production unit. The achieved rates were compared not with the potential productive capacity but with what is possible under the specific Algerian conditions and constraints (eg. disruption of production due to shortages of material inputs, delays in bringing production to full capacity due to inexperienced labour ... etc).
- 3 Labour productivity defined either as the ratio of gross output to total number of employees or gross value added per worker.
- 4 Cost stabilisation targets. The central authorities were seeking to keep major cost components within the budgeted targets. Here, particular attention was paid to expenditures on wages, material inputs and consumables.
- 5 The value added and net operating result. These two indicators were computed at two levels: the enterprise and the operating units.

It should be indicated that all these targets were calculated by enterprises for a period of three years: the last year, the year under consideration and the coming year. Evaluation of the work done within the enterprises was made by comparing the changes in the above-mentioned indicators over the three year period.

A wide range of more elaborate indicators were in use in the Ministry of Light Industries in the second half of the 1970's each covering one particular aspect of enterprise operations (18). However, only a few of these indicators can be considered of genuine importance. These are:

- 1 Output targets in physical terms.
- 2 Rates of capacity utilisation in each production unit.
- 3 Levels of inventory of output.

- 4 Value of turnover (excluding taxes).
- 5 Value added.
- 6 The net operating result of each operating unit (after allocation of the head office's overhead expenses).
- 7 Cost stabilisation targets. There were several ratios in use with each ratio dealing with one particular cost category. There was, for instance, an index for total spending in the enterprise and the component operating units which was expressed as a ratio of total costs to the volume of output. In the same way, there was a ratio for expenditures on manpower and training which is expressed as a ratio of total labour costs to the volume of production, and another for expenditures on raw materials and intermediate products ... etc.

Several comments can be made about these planning procedures and indicators. The first of these is that public enterprises were free to determine their production plans. In particular, the method of plan construction proceeded from the 'bottom to the top', that is, enterprise managements were not handed down ready-made plans which they had to fulfil. It is in fact the enterprise who makes the proposals, carries out the calculations involved and transmits information about its own performance to the higher authorities. The instructions issued by the ministry of 'tutelle' to these enterprises and the operating units derive from the information supplied to it by these very same units. Obviously, this enhances the authority of enterprise managers in planning in comparison to that of the central authorities. In fact, since they themselves lacked clearly defined criteria for decision-making and measurement of performance, the sectoral ministries were incapable of giving clearly stated guidelines to enterprises subordinated to them (19). Moreover, within the enterprise itself, it

is in fact the production unit and not the head office which initiates the planning process by making proposals and requesting the means for achieving them.

Secondly, public enterprises could not construct consistent, let alone optimal, plans. The reasons for this failure are both external and internal to the enterprise. Among the internal factors is the large size of most public enterprises and the adverse effects this has on the ability of senior managements to coordinate and control complex systems. Obviously, successful corporate planning requires highly skilled managers to bring together the various parts of the organisation, a prerequisite which was lacking in the Algerian labour market at that time. Among the external factors which affect enterprises' planning operations was the rigidity of the Algerian supply system, delays in the acquisition of imported materials and spare parts due to inflexible import regulations, the inability of managers to foresee with reasonable accuracy future financial flows, infrastructure bottlenecks.

These difficulties explain why most public enterprises tended to put forward plan proposals with no account taken of the external constraints which affect their operations (20). These constraints were regarded by enterprise managers as lying outside their competence. One illustration of this attitude is that when evaluating the performance of the enterprises and the production units, managers called for the elimination of the effects of all the factors 'independent' of the enterprise. Thus, for instance, changes in the prices of materials or of finished products in both world and local markets were considered as exogenous factors and their consequences had to be left out of account when evaluating enterprise performance (21). In the same manner, the failure of one producer enterprise under the

authority of one sectoral ministry to supply the required inputs of a user enterprise under the authority of another ministry was also regarded as an external constraint which has to be taken into consideration when assessing the work of the enterprise.

This atmosphere is not at all conducive to the exercise of initiative in public enterprises and is largely responsible for the dilution of responsibility for their poor performance. From a managerial point of view, it can be argued that the success of public sector enterprises in the implementation of their plans depends precisely on the ability of managements to foresee and bring into control these external factors. While it is very difficult indeed to deny the negative effects these external constraints may have on the performance of the public enterprises, it would appear, however, that this argument has been somewhat exaggerated by managers and used by them quite often as an alibi to justify their poor performance. This assumption is quite plausible since it is very hard to distinguish in practice with any precision when the worsening of plan indices is due to the failure of enterprise management and when to factors outside its control. In addition, it is evident that the enterprises never cared to refer to 'independent' factors when these happened to act in their favour. It must finally be noted that up to 1978, the point of view defended by enterprise managers and workers gained the support of the political leadership.

A third feature of the planning procedures relates to the low reliability of the information transmitted by the enterprises to the higher authorities. In fact, the basic weakness of the planning procedure described above is the (implicit) unrealistic assumption about enterprise behaviour. The fact that the system of planning production operations was decentralised does not by itself assure that

the enterprises will be willing to give economically optimal answers within their information constraints. Indeed, there are grounds for expecting bigger information distortions as a result of the large powers granted to enterprises in production decisions. When enterprise plans were elaborated, a strong conflict of interest developed between the production units and the enterprises as to whether output should be increased either by a better utilisation of the existing resources or by raising additional claims to the centrally allocated investment funds (22). Enterprises also tended to propose relatively low output targets and higher input targets, thus leading to the distortion of the input-output tables with consequent harmful effects on the national economy.

Worse still, since the performance of the enterprises and the production units was judged by the higher authorities on the basis of the information submitted to them by these very same units, the latter were induced to generate systematically distorted information to attain their objectives. Their reports were coloured and doctored in order to induce a favourable response from the higher authorities. In the process of constructing the plan there then exists a built-in mechanism which not only reduces the worth of the messages but also transmits them in accordance with the preferences of interests of the levels through which the messages pass. In many cases, enterprise managements were reluctant to transmit information concerning their operations to the central administration. One commentator explained this type of behaviour as follows: "... it cannot be excluded that the withholding of information by enterprise managements was part of their bargaining conditions with the central administration" (23). It should be noted, however, that the low reliability of information was also due to the absence of uniform work methods, management norms and

data presentation procedures. It is clear, for instance, that the productivity ratios and norms set by the production units, which are as yet difficult to comprehend by the general management of the enterprise, must be completely incomprehensible to the staff of the parent ministry who are so remote from the production units. A report of the Ministry of Light Industry recognised this deficiency by stating that "the reliability of information which arrives at the Ministry is doubtful despite the various meetings, cross-checks and contacts. It has been observed that the data relating to one particular parameter differ from one service to another within the same enterprise" (24).

The inadequacy of the informational basis of the planning procedure has another aspect, namely the high costs of administration and compliance incurred in operating the control system. In view of the multiplicity of the central control agencies which come into contact with the public enterprises and to which the latter had to send regular information and reports, the control system produced heavy reporting requirements for the enterprises. In his study of management practices in five public industrial enterprises, A Mettouchi found as early as 1975 that "the environment of the enterprises asks for too much information about their operations, the exploitation and use of which for the purpose of monitoring and steering the enterprises is not always clear. This environment results in a duplication of reporting and renders the planning process cumbersome and inflexible instead of facilitating its adaption to the development of the socio-economic productive structures" (25).

The fourth and last comment concerns the performance criteria used. It has been shown above that performance targets were calculated by the enterprises themselves and negotiated with the sectoral ministries. The issue which should be noted here, however,

is that there is no indication as to which of the several performance indicators previously mentioned should be accorded priority by enterprise managers in case of a conflict between them (eg. conflict between increases in output levels and reduction of costs). This condition is necessarily not only for an adequate measurement of the quality of work done within the enterprise but also for guiding enterprise managements in their economic decisions. For instance, it becomes impossible to state what percentage of overall plan fulfilment is constituted by a 120 per cent fulfilment of the output plan, a 96 per cent fulfilment of product-mix plan and a 90 per cent attainment of its cost stabilisation targets. To be able to determine the overall performance of the enterprise, one needs to know the marginal rates of substitution between these indices. This has never been estimated in Algeria.

The above analysis shows that the control system in the 1970's was designed to enable the central authorities to follow up the activities of public sector enterprises, to check the honesty of their operations and to obtain the necessary information from them rather than to induce managements to pay close attention to cost and make rational choices. Indeed, lack of economic calculation in public enterprises was due to the fact that enterprise managers lacked clearly defined rules for choice and optimality calculations, which itself is due to an ambiguity in the definition of their objectives. The implication of this for enterprise management is that value criteria were neglected and replaced with physical indicators. The end result is that money played a predominantly neutral role in public sector enterprises and this in turn resulted in loss of efficiency on a larger scale. This deficiency explains also why the internal information systems adopted by most public enterprises were directed more towards external



reporting to supervisors rather than internal decision-making and control purposes (26).

It is in fact a characteristic feature intrinsic of this type of planning and control that public enterprises had to bear no risk. Major management decisions had to be approved in advance by the central authorities, and thus responsibility was thrown on to the latter. In the case of failure, this approval served, not without reason, to exempt enterprise managements from all responsibility. Thus, while the market was eroded and distorted because it did not lead to results wanted by politicians, the production planning which replaced it was a dismal failure.

## 5 THE ECONOMIC AND FINANCIAL PROBLEMS OF ALGERIAN INDUSTRY

The control system described above failed to deal with several serious financial, economic and management problems which public enterprises and the national economy as a whole were facing. These distortions can be summarised under four main headings.

### 5.1 Poor Financial Performance

Most public sector enterprises were making heavy financial deficits in spite of the various relief operations mounted by the state. The deficits and their causes will be examined in Chapter Eight.

### 5.2 Under-Utilisation of Productive Capacity

It has been estimated that Algerian industry was on average operating at 50 per cent of its potential in the 1970's, and in many cases this figure may reach as low as 20 per cent. Table 1 below shows the rates of capacity utilisation in key industries on the eve of the 1980 economic reforms. In particular, the Table demonstrates the

Table 1 Trends in capacity utilisation in Algerian public sector industry (1978-1980)

The branch of industry	Products	Rates of capacity use		
		1978 %	1979 %	1980 %
Mining	Iron ore	72	81	90
	Phosphate	79	66	62
	Zinc	24	-	-
Iron & Steel	Cast-iron	60	103	73
	Welded tubes	72	100	82
	Rings for concrete works	22	33	35
	Metal containers, packs	62	80	80
	Gas cylinder	60	70	76
	Metal constructions	51	50	52
Mechanical engineering, metallurgy, electrical industries	Boiler works	33	-	-
	Tractors	75	98	84
	Industrial vehicles	90	100	100
	Machine tools	25	-	-
	Cables	67	77	78
	Batteries	100	-	-
	Accumulators	62	92	92
	Cement	36	52	49
Construction materials	Bricks & tiles	63	52	49
	Ceramics	85	-	-
	Glass	103	36	-
Food processing	Flour & semolina	103	99	84
	Refined sugar	55	49	74
	Cooking oils	83	75	83
Textiles & leather	Yarn	76	81	72
	Woven (fabric)	85	-	-
	Shoes	57	102	100
Wood & Paper	Woodwork	95	-	-
	Printing paper	44	49	47
	Packing paper & cartons	45	-	-
Chemical industries	Fertilisers	41	40	40
	Paints	90	92	99
	Detergents	76	78	73
	Ethylene	30	-	-

Source: Bouzidi, A, "Questions Actuelles de la Planification Algérienne", ENAL/ENAP, 1984 Algiers, pp 60-61.

wide variations in capacity use over time, a pattern which has become a striking feature of Algerian industry in recent years.

There were many reasons for the widespread under-utilisation of production capacity. First, the time required to bring the newly installed plans into full operation has been usually long in Algeria

due to the lack of industrial experience, technical skills and the hostility of the environment in which these imported, high technology factories were transplanted. Excess capacity has also been due to poor investment decisions. It is often the case that the new project is located too far from its raw material base or from water sources resulting in frequent disruptions of production. Another cause of the excess of capacity is the overestimation of demand at the initial stages of development of the project. Finally, breakdowns due to inadequate maintenance of machinery, shortages of spare parts and material inputs, which are frequently imported from remote foreign markets, have also been responsible for the sharp variations in the use of productive capacity over time.

### 5.3 Low Factor Productivity and Growth

There seems to be a consensus among Algerian policy makers and academics that the performance of public industrial enterprises in terms of productivity and growth were well below expectations considering the amplitude of the investment effort in this sector. Evidence on the productivity of labour and capital in public sector industry, defined respectively as the average value added per man and average value added per unit of capital, is summarised in Table 2.

It can be seen from the Table that with the exception of mining and energy, labour productivity in public sector industry was on average negative between 1967 and 1982. What is striking in these figures is that the low productivity levels were not limited to those industries customarily known as capital-intensive (eg steel, metal constructions, machine-tool, electronics) which require high technical skills and special training which are usually scarce in a developing country, but extend also to small and medium-sized industries (leather

Table 2 Labour and capital productivity in Algerian industry (1967-1982)

Branch of industry	Labour productivity	Productivity of capital
Water & energy	6.1	10.2
Mining & clay works	0.5	-12.1
Steel, metal, mechanical & electrical industries	-2.5	-26.3
Building materials	-1.6	-17.3
Chemistry & rubber	} -1.2	-22.3
Wood & paper		
Food processing	-2.0	-13.0
Textiles	} -3.6	- 0.8
Leather & skin		
		8.4

Source: Centre National d'Etudes et d'Analyses pour la Planification (CENEAP), "Emploi et Productivité en Algérie", September 1985, Algiers.

and skin, food processing, textiles). The Table also indicates that the situation is even worse for the productivity of capital which was on average negative over the same period. Paradoxically, the efficiency of capital reaches its lowest levels in such basic and high priority branches of industry as metal processing, machine tool, mechanical engineering, electrical engineering and electronics (-26.3), in rubber and petrochemical industries (-18.9), and in a large section of light manufacturing (-22.3 wood and paper, -17.3 building materials) which received the bulk of government investment funds in the 1970's. This paradox explains the tremendous difficulties faced by the Algerian public industrial enterprises in acquiring and utilising efficiently the new production technologies.

The causes of the low productivity of factor inputs in a developing country like Algeria are not far to seek: lack of industrial experience and shortage of technical skills, deficient organisation of production, inadequate maintenance of plant and machinery, excessive overmanning, deficient organisation of work, inadequate training, weak incentives to management and workers, managerial inefficiency, unreliability of local sources of supply, inadequate foreign exchange allocations, bureaucratic inertia, inadequate infrastructure, inadequate living conditions for the work force (inadequate housing conditions, high cost of living, shortage of basic consumer goods and transport facilities) which in turn result in high turnover, absenteeism and labour unrest.

#### 5.4 Market Coverage

Despite Algeria's heavy spending in industry for more than a decade, the domestic industrial output could not keep pace with the rapid growth of demand in the local market. This is true for almost all types of industrial goods. Thus, whereas in 1967 the domestic industrial output covered 48 per cent of Algeria's needs, this figure fell to 38.9 per cent in 1973, 26.4 per cent in 1974 and 24 per cent in 1977 (27). Undoubtedly, the inability of industry to meet the growing complex and highly diversified local needs has largely contributed to the severe pressures in the domestic market for these products and induced an increase in the overall import bill to fill the deficit.

Having surveyed the evidence related to economic and financial performance, the next step is to examine the link between the performance of public sector enterprises and the system of planning and control described earlier in this Chapter. In fact, the system of regulating production operations by predominantly administrative means

had several other economic and management defects. Broadly speaking, these defects can be attributed to weaknesses inherent in two key components of the planning and control mechanisms used in the 1970's: the price system and performance indicators.

### 5.5 The Effects of the Distorted Price System

The common practice of fixing the price of public enterprises' output below cost had the disadvantage of neutralising the effect of value magnitudes on enterprise performance and managerial decisions. In particular, public enterprises were making heavy financial operating deficits through no fault of their own. These deficits had to be borne by the state budget since managements could no longer be held responsible for the poor financial performance of their enterprises. It had also the effect of introducing cross-subsidisation on a large scale into the national economy. The failure of the centrally-fixed prices to reflect market conditions produced serious adverse effects. Shortages of consumer goods became persistent and endemic. Shortages extended from food to many other consumption goods in daily use, against a background of unsatisfied demand for durables, from housing to furniture and motor cars. These shortages have had other adverse consequences such as the ineffectiveness of monetary incentives, the indiscriminate purchase and hoarding of any goods available. This has produced an inefficient distribution of goods and has caused shortages even of those goods available in quantities normally sufficient to satisfy population needs. There was a rapid growth of black or 'grey' markets in which deficit goods were obtained at a higher price or through 'connections' or corruption.

Inevitably, consumption scarcities spilled over into the supply of materials and intermediate products to enterprises, especially for

imported inputs. Faced with the general conditions of shortage, public enterprise managers adopted three main techniques to meet their supply needs. Firstly, firms, just like consumers, hoarded inventories of materials which became too high and badly distributed. While some public enterprises were facing serious problems in the management of their excessive inventories, in others inventory levels were not sufficient to sustain continued production levels in many sectors. This is especially true of construction materials, spare parts, machinery and agricultural products subject to seasonal fluctuations. A second response was to use hard currency to import from abroad. The discussion in Chapter Five on the planning of imports has shown the amplitude of this phenomenon. Thirdly, enterprises switched to producing the inputs themselves. The result of this was an unjustifiably high degree of vertical integration and the duplication of production on a small scale on the shortage goods (28). The freezing of prices of equipment and intermediate inputs below cost over a long period of time also led to excessive and wasteful use of these goods by enterprises. In sum, it had become increasingly evident in the decade prior to the reform that the system of rigid prices, serving primarily as accounting devices and instruments of social and political policy, was producing serious misallocations of resources.

Another problem closely related to the pricing issue has been the difficulty of establishing direct trade links between enterprises belonging to different sectors. Research carried out in this particular area indicates that "... within the state sector, one notes the insignificance of exchanges taking place between enterprises subordinated to different sponsoring bodies. There is every reason to believe that the administrative problems involved in these exchanges

are an important handicap to the development of speedy and direct relationships" (29). In fact most Algerian enterprises are concerned to reduce the risks of obtaining regular supplies by manufacturing them themselves, often at a high cost, instead of relying on outside suppliers and subcontractors who could provide the supplies more cheaply, is a factor which has inhibited the growth of inter-enterprise links. Experience has also shown that the inter-enterprise conflicts over such important matters as prices, quality, delivery schedules and technical specifications of products (or services) were significant and could not be easily solved by administrative means (through special arbitration committees).

Furthermore, since the majority of Algerian public enterprises enjoyed virtually a monopoly position in production, imports and distribution of a wide range of products used by other enterprises and final consumers, they tended to neglect user demand. Most public enterprises did not know their markets as no market research studies and consumer surveys were carried out, and therefore tended to be production-oriented rather than market-oriented. The implication is that little attention was paid to the formation, development and organisation of the markets (30).

In fact, many mistakes had been made in the 1970's with respect to both the size and structure of output precisely because of the absence of relevant market research studies. This problem is particularly serious for those plants in which the existing production capacity is not easily convertible. At the Berrouaghia complex, for instance, large stocks of unsaleable vans and water pumps had been accumulating for many years simply because these products were technically designed according to standards not in general use in the local market (31). In the textile industry, "the consumer often does not find the goods he



wants. What is offered to him is generally of poor quality, expensive and does not correspond to his taste or to fashion trends" (32). In a third case, while mineral water is consumed in large quantities in the hot summer season, only small quantities are offered for sale during this period (33).

Public enterprises' indifference to users' preferences and quality considerations is a natural product of the administrative management system itself and the monopoly position of most Algerian public enterprises. In effect, lacking an appropriate incentive system, public enterprises could not be put under any pressure to produce high quality products, adjust quickly to market demand and develop after-sales services to customers. Deterioration of the marketing efficiency in public sector enterprises is closely related to the deficient success indicator system. In particular, the central planners' emphasis on, and the high priority they give to, physical growth of output and the expansion of productive capacity in evaluating the success of enterprise performance, encouraged production for its own sake irrespective of user demand. Clearly as long as the primary objective of management is to strain to meet targets set in terms of physical quantities, adjustment to market requirements will suffer.

#### 5.6 The Effects of Inadequate Performance Indicators

Performance indicators are the central part of any management formula which defines the principles on which a given enterprise operates. Performance indicators usually perform four main functions in a public enterprise (34):

- (a) informs the centre about the performance of the enterprise
- (b) a basis for decision-making within the enterprise
- (c) a basis for rewarding management and workers

(d) a basis for regulating the flow of resources to the enterprise.

Unfortunately, the link between these functions and performance could not be established in Algerian public enterprises in the period prior to the reform. One very important reason for this was the ambiguity in the definition of enterprise objectives and the inadequacy of the success indicator system in operation. This problem means that most public enterprises lacked appropriate effective operating mechanisms. It has been shown earlier that under the Algerian conditions profit could not be used as the main indicator of performance. However, nothing has replaced it since the sectoral ministries were incapable of devising production norms, financial and management targets which would effectively reflect the real productive potential of the production units and force managements to use the resources at their disposal efficiently.

The first consequence of the absence of clearly specified performance criteria in the 1970's was the inability of Algerian authorities to measure the performance of the public industrial enterprises and to determine whether the resources at their disposal were economically utilised. Indeed, the central authorities lost control over enterprise operations.

Another consequence of the lack of effective operating mechanisms was the extension of bureaucracy into public sector industry. Decisions at the enterprise level were rarely taken in the entrepreneurial spirit. This atmosphere was not at all conducive to the exercise of initiative. With prices commonly determined elsewhere and the output-mix and quantity constrained by the existing equipment, managerial discretion could make itself felt primarily in the area of cutting costs. But given the employment structure of public enterprises, the first cost to be cut was labour. This, however, was

virtually impossible because of the emphasis on a fair deal to workers and harmonious labour-management relations.

Moreover, the central planners' marked emphasis in the 1970's on physical growth of output introduced a number of problems. The main cause of these problems resides in the fact that partial physical indicators do not reflect the quality of enterprise performance correctly. Indeed, many of these physical indicators operated in ways which caused management to deviate from the pursuit of efficiency, and largely defeated their own ends. The priority given to the growth of output in physical terms in the evaluation of enterprise performance produced impressive results on paper in the form of high rates of (quantitative) growth, but concealed the social utility of the output and the social cost at which it was being attained. Plans in physical terms were incapable of reflecting sharp changes in product complexity, quality or changes in manufacturing costs or relative demand and scarcities. In the 1970's, public enterprises were under no pressure to rationalise their operations and reduce costs. The Ministry of Finance and the banks in particular have been critical of public industrial enterprises' indifference towards their own financial viability. Their continuing and accumulated operating deficits and high debt portfolios with the banks have frequently been presented in support of this argument. Thus, the Minister of Finance declared in a conference held with enterprise and bank managers in 1981 that "The main cause of the present production situation is the adoption of certain methods of management marked by the absence of a normative framework applicable to, and binding for, all economic partners, the absence of rigour and reversion to easy solutions" (35).

The absence of a success indicator system affected the central authorities' ability to regulate the flow of resources to public

enterprises. On the one hand, public enterprises were notorious for hoarding labour well in excess of their actual needs, but there was nothing that the central authorities could do about this. The problem of overmanning in public sector enterprises has been examined on several occasions in this study and need not be repeated here. It may be sufficient to note the negative effects a high wage bill may have not only on the finance of the enterprise in question but also on the level (and distribution of) incomes at the national level and the inflationary pressures which may follow from this especially if wages are not linked to the growth in labour productivity. The following section will focus attention on the financing of the enterprises' current operations and the friction and conflict with the banking system which this produced.

In Algeria the flow of funds to public enterprises in the pre-reform period were not determined by reference to their profitability but on the basis of the 'real needs' of these enterprises as determined in their production plans. The problem of financing an enterprise's needs for working capital is to allow the enterprise sufficient funds to cover requirements but not to exceed them so as to prevent accumulation of inventories and possible deviations from the plans. However, since the flow of funds to enterprises were by no means related to their financial performance there arose the complex problem of how to stimulate managers to keep as much working capital as necessary for efficient operation, but no more. This issue is at the heart of the serious and never-ending conflicts between public enterprises and the banking system. Under the financial system of the 1970's, the banks found themselves involved in trying to make detailed decisions as to just what constitutes legitimate working capital requirements for individual enterprises. This type of control faced

several difficulties: the process was time-consuming, and banks often lacked the information and the business expertise to know just what levels were reasonable. An official document issued in 1978 summarised these difficulties as follows: "Consequently, the control procedures used by banks are deadly slow and cumbersome, and the role of banks is distorted leading to the establishment of a control system which gives precedence to the compliance with administrative rules rather than to the financial efficiency of enterprises' operations" (36). Moreover, it has been argued by enterprise managers that the banks frequently determined the funds to be granted to enterprises on the basis of their own constraints and paid little attention to the real needs of enterprises. Furthermore, enterprise managers complained about the banks' refusal to process their payment orders and their repeated threats to freeze their accounts (37).

Experience has particularly shown that despite the various a priori checks and controls exercised by banks over enterprises, they encountered many difficulties in their efforts to control working capital. Firstly, by introducing the 'production plan' in 1970, the Algerian authorities were hoping to relate financing to production. But in fact the financing plan frequently bore little relationship to the production plan. In other words, fulfilment by the enterprise of its production plan in physical terms did not necessarily lead to the fulfilment of its financing plan. The latter is really no more than a forecast of the enterprise's future incomes and expenditures which may be determined by factors independent of the production operations relating to the year under consideration such as the repayment of overdue loans contracted in the past, the financing of 'unplanned' minor investments from enterprises' own funds (the so-called 'pirate' investments), and the customers readiness to pay for their purchases in

due time.

Secondly, the failure of the central authorities to control working capital adequately is attributable to the acute financial problems faced by most public enterprises (38). Their considerable financial deficits, which had been accumulating over the years resulted in a massive increase in their working capital requirements which in turn, and in the last resort, had to be borne by the state budget. Most public industrial enterprises were unable to reimburse their outstanding banks loans. Chapter Eight will examine in more detail the size and structure of these debts. What needs mentioning here, however, is that the banks were not empowered in the pre-reform period to refrain from extending credit to an enterprise which failed to repay its previous loans on schedule. Thus, if a public enterprise is facing serious financial troubles, then the bank is instructed to grant the enterprise in question further loans to allow it to carry out its commitments with foreign suppliers, settle its overdue taxes and pay wages and salaries to its employees. This is so because public enterprises could not be declared bankrupt (39). In fact, the political, social and economic costs involved in closing down production activities in a large section of Algerian industry were simply too high to be afforded by the central planners and policy makers. This problem was temporarily overcome by the availability of a considerable economic rent formed by oil and gas revenues and by the adoption of inflationary financing policies.

Thirdly, public enterprises often used their own funds in a non-optimal way by investing them in stocks of materials and spare parts to an excessive degree. Enterprises set the highest norms possible for inventories of materials. There was very little that the bank could do about these widespread practices basically because of its lack of

knowledge of an enterprise's internal requirements. In the second place, the fact that the majority of public enterprises failed to receive payment from their customers (especially those of the public sector) increased considerably their working capital requirements, which had to be ultimately covered by new bank loans. Thus, the bank lost control over the firm's activity. It finances indirectly what it refuses to finance directly since the activity is then financed by suppliers who, in turn, seek credit from the bank.

Finally, given the deficiency of the success indicator system it was not possible to introduce adequate incentive schemes in public sector enterprises. This important issue and its implications will be examined in more detail in Chapter Eight.

## 6 CONCLUSION

Attempt has been made in this Chapter to show that in the pre-reform period the Algerian central authorities lacked an appropriate framework for controlling the current operations of enterprises. The market was eroded and distorted because it did not lead to results desired by ideologists. Nothing, however, was put in its place, and the planning of production was officially recognised to have been a dismal failure. The financial and economic instruments of control were neglected and replaced with cumbersome and inflexible administrative controls. This type of control led to the development of a permanent conflict of interest between public enterprises and the central administration leading to mutual recrimination and mistrust. At the same time, the administrative methods of planning and control gradually produced serious macro and micro-economic disturbances. In particular, they failed to induce enterprises to operate efficiently and to pursue policies which were optimal from the standpoint of the national economy.

## Footnotes to Chapter Six

- 1 See for instance Zielinski, J G, "Economic Reforms in Polish Industry", Oxford University Press, London, 1973. Especially Chapter 4, p 179, or Feiwel, G R, "The Econoomics of a Socialist Enterprise: A Case Study of the Polish Firm", Frederick A Praeger Publishers, New York, 1965.
- 2 Secretariat d'Etat au Plan, "Premier Plan Quadriennal (1970-1973) - Rapport Général", Algiers, 1970, p 147.
- 3 The adoption of this pattern of industrial organisation was justified by a former Finance Minister on the following rounds: "The option for such a decentralised pattern aims to avoid any expansion of bureaucracy into the economic management and to encourage decentralisation". Mahroug, S, "Le Crédit en 1970. Orientations et Directives", in la Revue Financière, no 3, September 1971.  
  
The General Report of the Second Four-Year Plan (1974-1977) defined the contract as follows: "The inter-enterprise contract is an instrument of economic regulation that governs for a given period of time and at a decentralised level, the implementation of planned legal and financial relationships between enterprises". Op cit, 1974, p 261.
- 5 Law No 78-12 dated August 5, 1978 relating to the Statut Général du Travailleur. Article 128.
- 6 Ministry of Finance, the budget for 1970, Article 30. See also Decree No 70-75 dated June 5, 1970.
- 7 Ministry of Finance, Circular No 4067 dated August 14, 1970.
- 8 Journal Officiel, Ordonnance No 75-37 dated April 1975.
- 9 Ibid, p 419.
- 10 Circulaire présidentielle No 1628 dated September 1, 1977.
- 11 Liassine, M, the Director-General of the Societe Nationale de Siderurgie (SNS), quoted by Mettouchi, H A "Les Systèmes de Planification et de Gestion de l'Entreprise Publique Algérienne. Approche Organisationnelle du Développement des Sociétés Nationales du Secteur de la Transformation des Métaux". Doctoral thesis submitted at the IAE, Grenoble University, 1975, p 170.
- 12 Secretariat d'Etat au Plan, op cit, pp 258-261.
- 13 Ibid, p 259.
- 14 The definition of planning as a process of building a 'structure of mutual commitments' as opposed to 'forecasting' is borrowed from Chambers, David, "Plans as Promises: What Does 'Corporate Planning' Mean in a Publically-Owned Corporation?" Public Administration Vol 62, Spring 1984, UK, pp 35-49.



- 15 Mettouchi, H A, op cit, p 239.
- 16 This planning process is briefly described by Thierry, S P, in "La Crise du Système Productif Algérien", Institut de Recherche Economique et de Planification du Développement (IREP). Université des Sciences Sociales de Grenoble, 1982, p 307, and by A Bouzidi, "Questions Actuelles de la Planification Algérienne", ENAP/ENAL, 1984, Algiers, pp 59-65.
- 17 Thierry, S P, for example, found that out of the 30 production units forming the Société Nationale de Siderurgie (SNS), the initial proposals of 27 units were approved by the sponsoring ministry in 1980 without modification. Ibid, p 307.
- 18 Ghezali, M, "La Participation des Travailleurs a la Gestion des Entreprises", Office des Publications Universitaires, Algiers, 1984, p 122.
- 19 Bouzidi, A, op cit, p 69.
- 20 Ibid, p 67.
- 21 Thierry, P S, op cit, p 310.
- 22 Ministry of Planning, "Synthèse du Bilan Economique et Social de la Décennie 1967-1978", May 1980, Algiers, p 320.
- 23 Benachenhou, A, "L'Expérience Algérienne de Planification et de Développement, 1962-1982", Office des Publications Universitaires, 1984, Algiers, p 76.
- 24 Ministry the of Light Industries, "Présentation Générale du Système d'Information Statistique du Secteur Industriel", November 1979, Algiers, p 6.
- 25 Mettouchi, H A, op cit, p 239.
- 26 Most public enterprises have not introduced modern cost accounting techniques. A shortage of qualified accountants has often been offered as an explanation for this deficiency. While there may be some truth in this argument particularly in the 1960's, it may be equally true that the administrative fixing of prices of materials and intermediate inputs, did not encourage enterprise management to pay close attention to costs and to use cost accounting techniques for the rationalisation of their decisions. It should be noted here that the standard accounting manual (Plan Comptable National) introduced in 1975, the use of which is compulsory for all public sector enterprises, is designed mainly for external reporting to supervisors and for internal control purposes rather than for decision-making.
- 27 Ministry of Planning, op.cit, p 84.
- 28 Touat, A, for instance, came to the conclusion that "One of the most characteristic features of the (Algerian) supply system is the relative compartmentalisation of the distribution channels. The SNS, SNMC, SONITEX, SNEMA, and SONIC are clear cases in point

here. In general, more than 80 percent of procurement exchanges take place within the confines of the same enterprise". In "Etudes sur le Stockage et la Distribution dans les Entreprises Publiques", Vol 1, INEAP, 1982, Algiers, p 11.

- 29 Ibid, p 12.
- 30 Ibid, p 1.
- 31 El-Moudjahid (Supplément Economique), "Le Bout du Tunnel", December 25, 1984, p 2.
- 32 El-Moudjahid, "Les Textiles et l'Exigence de la Demande Nationale", November 29, 1984, p 2.
- 33 Touat, A, op cit, p 36.
- 34 Zielinski, G, op cit, p 175.
- 35 In his address to the participants in the conference, the Minister of Finance has been highly critical of mismanagement in public sector enterprises. For more details see "La Revue Financière", March 1981, pp 7-19.
- 36 Ministry of Planning, op cit, p 343.
- 37 The Minister of Finance, op cit, p 9.
- 38 The Ministry of Planning noted in 1980 that "the confusion in the finances of public enterprises and the absence of real plans for financing investment and production operations did not allow the banks to monitor their financial performance", op cit, p 343.
- 39 The Algerian commercial law rejects entirely the application of ordinary bankruptcy laws to public industrial undertakings. Enterprises' fixed and circulating assets cannot, for instance, be used to pay off its creditors in the case of a liquidation. For more details see Boussoumah, A, "Enterprise Socialiste en Algérie", OPU, 1982, Algiers, p 597.

## CHAPTER SEVEN

### **REGULATION OF WAGES AND INCENTIVES IN PUBLIC ENTERPRISES**

#### **1 INTRODUCTION**

Another area in which a strong conflict of interest developed between the state and public enterprises in the pre-reform period is wages and incentives. Two striking features characterised the wage and income scene in Algeria in the 1970's. The first was the absence of a national salary grid applicable to all public sector enterprises. In fact, public enterprises were more or less free in their manpower and wage policies restricted only by the general guidelines addressed to them by the relevant sectoral ministries. Each public enterprise had its own remuneration system (which is often part of a wider sector wage system). Thus the central planners had no control over the wages and benefits distributed in public sector enterprises. The second feature is that the use of wages and incentive schemes as natural economic levers for stimulating worker effort has been the weakest aspect of industrial management in Algeria. The central authorities lacked an appropriate control framework to guide managements in their manpower decisions and force them to use the labour force rationally, and wages and incentives in public enterprises were not related to the quality and quantity of work and its importance to the society.

There was, therefore, a real crisis in the organisation and management of the labour force in Algerian industry. This Chapter will try to examine some of the symptoms of this crisis and discuss their implications.

#### **2 WAGES AND SALARIES**

Over the last 15 years, perhaps the most complex and least

successful aspect of industrial management has been the effort to change the behavioural patterns of enterprise managers and labour. Wages are intimately linked with labour productivity. Motivating a greater degree of cooperation and productivity is rooted, however, not only in industrial organisation but also in the larger scale and cultural environment. This means that the effective rationalisation of the methods of management extends beyond the enterprise particularly with respect to labour.

Despite several official declaration of intent aiming to unify the wages paid in all public sector enterprises in a national salary grid and to relate wages to the quality and quantity of work (1), in practice very little was done by the central administration before 1978. The central planners' intervention in this sensitive area was restricted to the freezing of wages and other wage-related benefits in some sectors of the economy and legislation on wage increases in others. The role of the central administration was also confined to decisions relating to the definition of minimum (guaranteed) wage rates in the public sector economy (2). This means that up to 1978 there was no national policy on wages and incentives in the public sector.

Several reasons account for the delay in the introduction of a national wage policy. It should first be noted that prior to 1978, labour relations, and wage matters in particular, were dealt with in a rather 'populist' manner emphasising - almost exclusively - propaganda and political mobilisation of the labour force. The political leaders and their supporters in the public sector were most concerned with achieving political stability, consensus through worker participation schemes and social peace with the trade unions (UGTA) rather than the most efficient organisation of production and improvements in labour productivity through appropriate wage and incentive systems. It was

assumed that in a socialist enterprise the workers would rid themselves of greed and acquisitive ambitions, and instead they would be responding only to superior motives so that there would be complete identification of personal and socialist interest. According to this conception, the gulf between white-collar and blue-collar workers and between managerial and operative workers would disappear. The reality, however, turned out to be at variance with this idealistic view. The flaw in this type of thinking is that in the redistribution of national economic product equity is identified with the equality of incomes and not with the remuneration according to the quality and quantity of work and its importance to society.

A second reason is that the central planners lost control over the incomes distributed by public sector enterprises and therefore it was impossible for them to know the exact remuneration levels in the various branches of the economy. The technical complexities involved in the elaboration of a national salary scale applicable to a very large and heterogenous public sector (agriculture, industry, civil service, service industry ... etc) was another factor. The fourth reason is related to the existence of an active private sector which escaped state control entirely. Undoubtedly, the level of incomes and salaries paid in the private sector has an impact on the level and structure of wages in the public sector. Obviously, this impact should be closely studied and accounted for when envisaging the elaboration of a national wage policy. Unfortunately, the central authorities lacked even the basic information about the private sector.

The last, but not the least, important reason is intimately related to the extensive growth strategy adopted with its emphasis on quantitative sources of growth. Under this strategy, enterprise managers were not required or under any pressure to rationalise their

labour decisions and use wages and incentives as economic levers for achieving higher productivity levels. Instead, their objective was to recruit as many workers as possible to fight unemployment.

## 2.1 Wage Distortions

The absence of appropriate mechanisms for controlling the level of remuneration in the public sector economy coupled with the massive investment carried out in the 1970's produced several distortions and disequilibria in the national economy.

One important problem was the emergence of a wide differentiation of wages within the public sector economy. These disparities in the earnings from work were found to exist not only between the various branches of the economy but also within the same branch. Various studies and surveys carried out in this particular area between 1974 and 1980 pinpointed this serious problem (3). A survey carried out by the Ministry of Labour in 1978 in a sample of 40 production units provided empirical evidence about wage inequalities in the public sector. Some of the findings of this study are summarised in Table 1 which depicts the range of average monthly wage earnings of various skill-categories in the production units investigated. The Table indicates that the monthly wage earnings within each skill-category varied greatly from one enterprise to another. It can be easily seen from the Table that the monthly salary of 2500 AD is earned by workers and employees belonging to the first five skill categories at the same time (from non-qualified to highly qualified workers and technicians). This meant that while the salary of 2500 AD may be earned by a highly qualified technician in one public enterprise this very same salary may be offered to a non-qualified workers in another public enterprise. The Table shows also that the average salary of a qualified worker

employed in an enterprise paying high rise salaries would be roughly

Table 1 The range of average (monthly) wage earnings of various skill categories in 1978 (in AD)

	Average wage in lowest wage bracket (1)	Average wage in highest wage bracket (2)	(2)/(1)
Non-qualified workers	1062	2630	2.476
Semi-qualified workers	1315	3041	2.313
Qualified workers	1457	3525	3.535
Clerical & highly qualified workers	1667	4527	2.716
Technicians & controllers	2167	4615	2.130
Highly-skilled technicians & cadres	3400	6700	1.970

Source: Hadj Lazib, R, "Le Système des Salaires" in la Revue du CENEAP, no 6, Mars 1986, Algiers, p 63.

3.5 times higher than his salary if he were employed in another enterprise offering low wages.

Wage inequalities emerged also between the various sectors of the economy. The average monthly wages paid in the major sectors were as follows in the mid-1970's (in AD)

- Agriculture	720
- Construction works	1177
- Local agencies	1211
- Civil service	1465
- Industry	1536
- Finance & services	1665

It should be noted that these overall figures represent the average salaries in each sector and therefore do not reflect the actual differences between the wage earnings of individual workers which are much bigger. It was found, for example, that the monthly wage of a

manual worker varied from 459 AD in the textile industry to 1723 AD in the service industries. Many other absurd cases have also been quoted in the economic literature to illustrate the chaos which characterised the wage scene in Algeria in the 1970's, eg. the mine worker who earned practically half the salary of a typist in a general office whose salary, in turn, was three times the salary of an agricultural worker (4).

Even in public industry in which a sectoral salary grid was introduced in the early 1970's, wide wage differentials existed between industrial enterprises. In some branches of industry, wages were reported to have varied according to the following proportions: (5)

Hydro-carbon sector	1 to 18
Extractive industries	1 to 8
Textiles	1 to 13
Steel industry	1 to 15

It is very important to note that the differentials in wage earnings bore little relationship with the quality and quantity of work provided by each individual worker but were mainly due to the absence of a uniform wage system for the whole public sector economy.

The aforementioned wage distortions were accompanied by a number of problems which had a negative effect on labour productivity. The first was the negative impact of the wide wage disparities on worker mobility. Undoubtedly, the wage disparities between sectors, branches and even enterprises explain the high rate of worker mobility in the Algerian economy. It is a well established fact that most Algerian public enterprises suffered from the departure in great numbers of technical workers and qualified personnel to other enterprises in search of better pay and other wage-related benefits. For instance,



in the CVI complex (industrial vehicles) near Algiers, the average rate of turnover was estimated at roughly 20 per cent between 1977 and 1980 (6). In heavy industry, it was estimated that labour turnover varied on average between 10 and 12 percent. Furthermore, it has been observed that more and more technical workers who had acquired considerable experience and special skills - at a high training cost - in public sector enterprises simply quit either to establish their own businesses or were attracted by better job prospects in the private sector. The wage disparity factor also explains why certain rich and dominant economic sectors and enterprises attracted the most qualified personnel to the detriment of others leading to disproportions which had serious economic consequences at the national level. Thus, SONATRACH, the giant oil company, alone employed some 36 percent of the country's total popules of cadres in 1977. It also accounted for about 30 percent of the country's technicians and qualified workforce in the same year (7).

Finally, it should be noted that these intra and inter-enterprise inequalities extended well beyond the sphere of incomes in cash to include several other forms of economic, social and cultural advantages and benefits (incomes in kind) to employees such as access to housing, the provision of consumer goods in short supply in the local market in special worker cooperatives, the acquisition of cars, holidays for workers' children and families.

A second consequence of the distorted wage system was inflation. Serious inflationary pressures resulted from the growth of wages in the public sector not matched by similar increases in labour productivity. The central authorities were unable to regulate the size and structure of the wage funds of most public enterprises. In fact, the size of the wage fund in the majority of public enterprises was determined

independently of the level of output or labour productivity. This led to excessive spending on wages in most public sector undertakings. Over-expenditure on wages, in turn, resulted in enormous pressures on the consumer market undermining its balance. This problem was further aggravated by the intensive investment effort in the public sector over the period 1970-1980. In fact, the widening of the investment 'front', which involved a considerable increase in expenditure on wages, was not always accompanied by similar increases in production and productivity levels because of the long delays in the installation of investment projects and widespread under-utilisation of plant and machinery. It is estimated that while wage earnings in the public sector (excluding the hydrocarbon sector) grew in global terms by a factor of 4.07 between 1970 and 1980 output increased only by a factor of 3.69 over the same period (8).

It is clear, however, that these overall figures mask the considerable disparities which existed between the various sectors of the economy and between workers with different skills. Indeed, there is evidence which indicates that the real wages of some worker categories started to deteriorate as from 1974. Table 2 below illustrates the trend in consumer prices and wages of major worker categories over the period 1970-1977. As shown in the Table, the most highly skilled and qualified workers were the most hit by inflation since their purchasing power started to fall behind as from 1974. These figures must be interpreted with special care since they were constructed on the basis of official prices which may depart quite considerably from actual market prices. In particular, the official price index does not take account of the widespread shortages of consumer goods and services, especially housing and transport, in the local market and the purchase of shortage goods at higher prices in the

black market. It overlooks also the time spent in the search for these goods or in the waiting lines. Obviously, the deterioration

Table 2 Price and wage changes in Algeria between 1970-1977

Skill category	1970-1973 (%)	1974-1976 (%)	1970-1977 (%)
General price index	+20.4	+38.0	+67.0
Minimum basic wage	+27.2	+82.5	+130.0
Non-qualified workers	+16.4	+67.0	+95.0
Semi-qualified workers	+23.1	+50.0	+87.0
Qualified workers	+31.0	+38.0	+81.0
Highly-qualified workers	+25.0	+20.0	+50.0

Source: Secretariat d'Etat au Plan, quoted by Benachenhou, A in "L'Expérience Algérienne de Planification et de Développement", OPU, 1983, Algiers, p 67.

of the purchasing power of these qualified and highly qualified employees is very damaging to their morale and does not encourage a major expansion of productivity through increases of work effort. This is especially true considering the fact that this category of the labour force is in short supply in Algeria.

The third aspect of the wage distortions which prevailed in the pre-reform period is the 'bureaucratisation' and inconsistency of the wage system. This arose from the fact that the wages paid to workers and employees were divorced from the results of their work. Wages were distributed on the basis of subjective and ill-defined criteria and with reference to the post the worker or employee occupied in the established management structure within the enterprise and not according to objective and measurable work norms (personal effort, risk involved, experience, qualification, responsibility, seniority).

Under these circumstances, wages also lost much of their incentive function. In effect, the wages, promotion and social status of

managers did not so much depend on the economic and financial results of the production units they were running as on their authority within the command hierarchy of enterprises and their loyalty to those who appointed them. Moreover, managers carried out mainly administrative functions which, considering the institutional set-up in which they operated, were given priority and consequently reflected high status and prestige. The implications of this state of affairs are not hard to find: neglect of normal managerial tasks and responsibilities, devaluation of creative and productive work, development of a negative attitude towards work and indiscipline. In particular, engineers and technical workers who were badly needed in the production workshops and maintenance units sought promotion to intermediate and higher administrative levels where prestige was higher and the chances of being promoted more rapidly much greater (9). This meant the recruitment of new workers to replace them. It also led to the inflation of administrative personnel in public enterprises.

Finally, the absence of appropriate mechanisms for regulating the flow of manpower resources to public enterprises and especially the fact that the level and structure of their wage funds were disconnected from their performance, led to managements recruiting armies of redundant workers and neglecting the adverse effects of such a policy on their finances and on the national economy.

### 3 ECONOMIC INCENTIVES TO EMPLOYEES

In contrast to the basic salary which is, on the whole, not subject to variation in order to ensure a certain minimum stability of the household budgets, the term 'economic incentives' usually refers to the variable part of a worker's pay. They comprise all sorts of bonuses and premiums paid to employees including any profit-sharing

arrangements. This definition assumes that, at least in theory, the variable part of remuneration is related to performance. In particular, economic incentives are designed to motivate people to realise a given objective. As will be shown in the following sections, although this variable part of the workers' pay existed in most Algerian public enterprises and a substantial proportion of their wage bills was allocated to it, it failed under the Algerian institutional set-up to accomplish its stimulating role. A close look at the incentive systems adopted by public enterprises in the 1970's permits the identification of two types of material incentives: the premium systems and the profit-sharing scheme.

### 3.1 The Premium Systems

It may be worthwhile noting that in contrast to the profit-sharing scheme, public enterprises had up to 1978 large powers in their premium policies. With the exception of some branches of industry, the central planners' intervention in the determination of the size and structure of the bonus funds of public enterprises was more apparent than real. There were as many systems of reward as enterprises. Each public enterprise worked out its own bonus system to attract the labour force it needed.

Two salient features characterised the bonus payments in public sector enterprises in the pre-reform period. The first is the multitude of bonuses and premium allowances paid to the workers and employees in the public sector. It is estimated that the number of premiums, which carried a variety of names (application, technicality, risk, dirt, heat, cold, productivity, remoteness, housing and transport, responsibility ... etc), could number as many as 35 in some public enterprises (10). The second feature of these premium payments is their weak inter-relationship with the employee's performance.

Indeed, with the exception perhaps of few enterprises in industry, the cases in which bonuses were related to the quality and quantity of effort provided by employees (either collectively or individually) were very rare indeed. For instance, it has been observed in some public enterprises that 'technicality' premiums, initially designed to reward workers with high technical skills, were paid to manual workers with no technical qualifications. It has also been found that 'productivity' bonuses were granted to workers while they were off work on sickness leave or on holidays (11).

The actual amount of these premiums naturally varied from one enterprise to another and between workers of the same enterprise but it could at times be considerable. Thus, premium payments represented in 1975 40 percent of the wage fund of the oil company, SONATRACH, 20 and 16 percent of the wage funds of SONITEX (textile) and SNTA (tobacco) respectively (12). In the steel industry they were estimated at 25 percent in 1979.

Premium payments varied also from one employee to another within the same enterprise since they were as a rule determined with reference to their basic salaries. It seems that by and large the administrative personnel, managers and qualified workers were the first to benefit from these premiums. Thus, in SNLB (wood and furniture), for example, a qualified cadre with managerial responsibilities was paid a 'responsibility' premium which represented 70 percent of his monthly salary and a bonus to cover housing and transport expenses varying between 640 and 770 AD (the equivalent to one month's wage of a qualified worker). For a qualified worker (agent de maîtrise) these figures would fall to 27 percent and 180 AD respectively. As for manual workers these types of premiums were reported to have been quite insignificant (13).

Another example of the disparities in premium earnings in public enterprises is SONIPEC (shoes and leather products) where a (monthly) lump-sum premium, called indemnité forfaitaire de fonction alone represented the wage earnings of a semi-qualified (ouvrier spécialisé) worker over a three-month period. These examples indicate why some economists have suggested that income differentiations in public sector industry were due primarily to the existence of different premium systems in public enterprises and to their specific growth circumstances rather than to significant differences in basic wages (14).

Only the Ministry of Industry attempted in 1975 to link premium payments in public industrial enterprises with their performance. In fact, a uniform productivity premium, called 'prime de rendement collectif', was introduced in industry in this year. This bonus was distributed to all employees of the enterprise and the production units subordinated to it including the administrative staff. The amount of bonuses available to the enterprise for distribution were fixed at 15 percent of the enterprise's wage bill. The conditions for obtaining bonuses were fulfilment of the production plan in physical terms and improvements in labour productivity and rates of capacity use in comparison with past achieved levels.

It would appear, however, that this incentive system worked very badly in practice and did not fulfil its functions efficiently. The single most important drawback of this type of premium was its low intensity. Since the collective productivity bonus was not a decisive factor in the budget of an employee, it did not provide real encouragement to greater effort. Thus, in contrast to other types of premiums which may represent up to 100 percent of an employee's basic wage (eg. seniority, technicality, responsibility ... etc), the bonuses

related to productivity rarely reached the level of 15 percent (15). Another reason was the inconsistency between the incentives on the one hand and the administrative orders and external constraints imposed on public enterprises (eg. shortage of spare parts, centralisation of investment decisions) on the other. A third weakness of the collective productivity premium relates to the deficiency of, and inconsistencies between, the various performance criteria which serve as a basis for the distribution of productivity bonuses. In sum, the common feeling was that the productivity bonus was an addition to salary independent of the results obtained by the individual employee (16).

### 3.2 Profit-Sharing Scheme

The second type of incentives to workers is the sharing of profits of the enterprise and the economic units. It may be recalled from Chapter Two that the Charter of the Socialist Management Scheme laid down the basic rules governing the internal organisation and functioning of the national public enterprise and formalised in particular the two-tier system of this entity: the enterprise (general office) and the component operating unit. This Charter also defined the notion of profit-sharing. Article 83 in particular noted that the net financial result (ie. profit) of the socialist enterprise and the production units will be divided into three distinct funds: the enterprise fund, the profit-sharing fund and the contribution to the state budget. The Charter did not, however, specify in detail the mechanisms involved in the distribution of profits and the basis on which it will be made.

In practice, and up to 1975, no profits were distributed to workers in public industrial enterprises. Several reasons accounted



for this delay: delays in the implementation of the new management system itself in all public sector enterprises (17), lack of national accounting manual for measuring their performance (18) and the absence of a clear definition of the financial structure of the new 'socialist' enterprise. The last two conditions are crucial in any attempt to construct a profit-sharing scheme. It is probably for these reasons that the Government introduced a temporary scheme in 1976. The two Circulars no 932, July 1976 and no 1628, November 1977 provided the general guidelines governing the distribution of profits in public enterprises. These guidelines as well as their operation in practice will be examined in the following pages.

Circular no 932 introduced four basic principles for the distribution of profits in public enterprises and the production units. The first principle relates to the solidarity among workers and employees of the same enterprise. According to this rule, the operating units which are making profits should subsidise loss-making units within the same enterprise. This same solidarity rule applies equally, although this is not explicitly stated in the aforementioned document, to enterprises belonging to different sectors and branches of the economy. It stipulated that "out of the 33.33 percent of the profits allocated to the sharing fund ... one third (1/3) for example will be allocated to a national fund to subsidise the workers of structurally loss-making enterprises such as the National Steel (SNS) and the Railway Enterprises (SNCFA)" (19).

The second principle indicated that in calculating the financial result (profit) reference should be made to the accounts of the operating unit and not to those of the parent enterprise.

The third principle dealt with the complex problem of performance criteria to be used as a basis for the distribution of profits. How

to define objectively the net result of a production unit? The Circular no 920 was not clear about this issue. The use of the profit criterion as a basis for measuring enterprise performance is certainly inappropriate under Algerian conditions. Profit is affected by the existence of so many factors outside the control of public enterprises (centralised price fixing procedures, centralised sources of financing, state monopoly over imports), by the monopolistic structures of the local market and the diversity of objectives assigned to enterprises. This is perhaps why the 1976 Circular merely asserted that the chosen criteria should ensure that the "achieved result expresses a real creation of value" meaning perhaps value-added. However, the same document referred also to the fulfilment by enterprises of several other planned targets such as output levels, capacity utilisation, labour productivity and cost reduction to qualify for a share in profits. The 1976 legislation also made it clear that it was left to the sponsoring Ministry and the Ministry of Finance to decide jointly, on the basis of the accounts and information presented to them by the enterprises, whether profits made were the result of a genuine effort on the part of management and workers or simply the result of external factors.

The last principle dealt with the application of the equality rule mentioned above. It should be recalled that 'equality' here refers to the equality between both enterprises and workers. As far as equality between enterprises is concerned, public enterprises were not allowed to allocate profits to their sharing funds in proportion to the profitability of their activity. Instead, all enterprises were instructed to retain one uniform proportion fixed at 33.33 percent of total net profit in 1976. The adoption of a uniform rate for all enterprises was thought to overcome the acute problem of variability of

profit margins between enterprises and various branches of the economy. Circular no 932 indicated that "the determination of a (profit) rate which varies from one branch of activity to another assumes that production and productivity norms for the utilisation of labour and material inputs are available. But in the present state of our development and due to the malfunctioning of the means of production, the assessment of their efficiency through the definition of a given rate for each branch seems, quite objectively, a very difficult, if not impossible, task". Moreover, in order to reduce the range of possible profit differentials between public enterprises, the central authorities linked the level of profits available for distribution to the size of the wage fund of the enterprise and the operating units. The amount of profit to be distributed must not exceed 15 percent of their wage bills.

The principle of equality between the workers in the same enterprise poses the problem of rules on which profits are to be distributed. In particular, administrative employees were recognised to have an equal right in profit-sharing as production workers. The aim was to avoid the introduction of divisions between the workers of the same enterprise incompatible with the very spirit of the Socialist Management Scheme. Consequently, three types of operating units were identified within an enterprise: the production unit, the trade unit and the head-office unit. According to Circular no 932, the sharing funds of the production and trade units should not exceed one third ( $\frac{1}{3}$ ) of their respective net profits (excluding tax). As for the head-office unit, which is not empowered under Algerian law to hire its services to the component operating units, the distribution of profits is subject to another rule. Its share in profits is made up of the consolidated profit of the parent enterprise after deduction of all tax

charges and the profit shares of the various operating units subordinated to it. The amount of profit to be distributed to the staff of the general office must not of course exceed 15 percent of the total wages paid to this category of personnel.

The 1977 Circular brought about three main corrections to the previous regime. The first of these deals with the criteria for measuring enterprise performance and in particular the financial result. Although this text carried over the same ambiguities inherent in the previous Circular with regard to the performance indicators to be used as a basis for the distribution of profits in public enterprises, there seemed to be a shift in favour of the 'planned targets' rather than the financial targets. Circular no 1628 stipulated that the financial results "should not be interpreted by looking at them exclusively from a financial angle. It should be determined whether there is a reduction in unit cost, whether the production plan is fulfilled as expected ...". Moreover, aware of the fact that the employment of the profit criterion as a basis for rewarding management and workers' efforts was inappropriate under the Algerian conditions, this text invited the various control agencies to make a distinction "between a positive financial result which hides poor management and a negative financial result which may not reflect a genuine effort to improve management". Unfortunately, the above mentioned document gave no indication as to how this distinction can be made in practice.

Secondly, the implementation of Circular no 932 had shown in practice that employees at the head office earned more profits than their fellow workers in the production units, in some cases three times more (20). Circular no 1628 aimed to correct this deficiency. New norms were set for the distribution of profits in the head office unit.

The amount of profits to be distributed in the head office unit is formed eventually by what remains of the total sum of the sharing funds of the (profit-making) operating units after deduction of 15 percent of their respective wage funds provided, of course, that the net (consolidated) operating result of the enterprise in question is at least equal to this remainder.

The last provision introduced by the 1977 legislation relates to the requirement that enterprises should cover first their previous deficits (in the form of bank overdrafts) before the distribution of any profits.

The implementation of the profit-sharing scheme as envisaged by the two aforementioned documents gave rise to serious conflicts in the public sector. First of all, the profit-sharing scheme which was initially intended to promote social harmony and reduce conflicts within the public sector, introduced serious conflicts and inequalities between the employees of the same enterprise. In fact, the financial result of the enterprise and the production units were heavily affected by the large superstructure of officialdom which tended to develop rapidly in most public enterprises. The acuteness of this problem explains the defensive position of workers' representatives and their repeated demands for taking immediate action to reduce the administrative personnel in public enterprises in recent years (21).

The growing inequalities between the profits distributed in the trade and service enterprises on the one hand and the production enterprises on the other is another deficiency of the profit-sharing scheme. Table 3 below illustrates these disparities. Thus, in 1975 the profit shares ranged from 530 AD in the electrical industries (SONELEC) to 3000 AD in the banking system (BAD). These inequalities persisted even after the promulgation of the Circular no 1628. For

instance, while AIR ALGERIE (airline company) distributed a profit share of 3600 AD in 1978, SOGEDIA (food processing enterprise) was incurring heavy financial losses because its prices were kept unchanged for more than a decade (22). Undoubtedly, the low profitability margins of the production units is due to the high costs of national gestation, ie. carrying out national development objectives, lack of industrial experience and inefficient management. But they are also a natural result of the Algerian arbitrary price system which tended to penalise the production units by fixing their prices often well below cost.

Table 3 Profits distributed in selected enterprises in 1975

Enterprises	No of units	No of profit-making units	No of workers	Profit-share (AD)
<u>Trade &amp; services</u>				
SNNGA	37	37	2832	1055.75
SONACOB	13	12	2027	2420.06
BAD	1	1	186	3000
<u>Industry</u>				
SONACOME	49	33	11000	700
SONELEC	7	3	1302	530

Source: Union Générale des Travailleurs Algériens (UGTA). Rapport sur la Répartition des Bénéfices, 1975, Algiers.

Indeed, in many cases the amount of profits to be distributed by public enterprises were more determined by the variability of profit margins between various activities and the pricing policy adopted by the state than by the efficiency of their operations. This explains the frustration of workers in production enterprises who argued that they were penalised through no fault of their own. This same defensive strategy was also adopted by workers representatives who frequently referred to the 'external factors' which impinge heavily

on their performance such as the centralisation of investment decisions and shortages of material inputs due to stringent import regulations (23).

A final significant weakness of the profit-sharing scheme was its failure to provide all employees with an interest in the success of their enterprises and especially in the reduction of costs and the attainment of higher profits. Paradoxically, in a country where profit-sharing was not considered as an objective *per se* but as a symbol of worker participation in management, workers and employees tended to perceive their annual profit shares as a 13th month additional payment and consequently it became another source of conflict in public enterprises. Thus, workers protested against the inequalities in the distribution of profits. Workers of the Oued-Smar Complex went on strike "because their share in profit this year was lower than last year's" (24). The same argument was put forward by the workers at the Drâa-Ben Khadda Complex. Similar conflicts also emerged in the automobile complex at Rouiba between 1979 and 1981.

In sum, there is ample evidence which shows that labour unrest in the public sector started to grow rapidly as from 1975. Table 4 exhibits the rapid increase in the number of strikes in the public sector between 1969 and 1980.

Table 4 Growth in the number of strikes in the public sector between 1969 and 1980

Year	1969	1971	1974	1975	1977	1978	1979	1980
Number of strikes	2	23	-	107	189	88	260	420

Source: Chikhi, S, "Grève et Société en Algérie", in la Revue du CREAD, no 2, 1986, Algiers, p 92.

It is clear from the Table that the number of strikes rose sharply from 2 in 1969 to 420 in 1980. It should be finally noted that wage and wage-related claims were the primary cause of these strikes (25).

#### 4 CONCLUSION

This Chapter has attempted to show that the Algerian authorities, because they lacked an appropriate control framework, failed in the 1970's to regulate the wages and incentive distributed in the public sector. This failure led to the emergence of serious economic, social and political problems which accelerated the need for economic reforms.



## Footnotes to Chapter Seven

- 1 The GSE Charter proclaimed in 1971 the uniformity of labour and wage regulations in all socialist enterprises. It particularly called for the adherence to the principle of 'a travail egal, salaire egal' in socialist industry and for linking remuneration to the quantity and quality of one's work. The 1976 National Charter reiterated the need for a national salary scale. It laid down the basic principles of a national policy on wages.
- 2 For example, under the influence of inflationary pressures, the central authorities were forced to review the basic wage rates paid to workers in the public sector in 1972 and 1974. Moreover, in the face of the growing disparities in wage earnings in the public sector, the Algerian policy makers decided in 1974 to freeze the wages paid in industry (1974 Budget, Article 28) so as to allow the traditionally depressed branches of the economy, especially in agriculture, education and construction works to catch up.
- 3 See, for instance, the work of the Secretariat d'Etat au Plan, "Situation de l'Emploi, des Salaires et de la Durée de Travail en 1972", 1972, Algiers, and the report of the Commission Nationale Chargée de l'Etude et de l'Harmonisation des Statuts et de Rémunérations aux Personnels des Secteurs Publics et Para-publics, 1974, Algiers.
- 4 Hadj-Lazib, R, "Le Système des Salaires en Algérie", in la Revue du CNEAP, no 6, Mars 1986, p 63.
- 5 Ibid, p 63.
- 6 Chikhi, S, "Le Travail en Usine", in Les Cahiers du CREA, NO 4, 4th quarter 1984, Algiers, p 13.
- 7 Benachenhou, A, "L'Expérience Algérienne de Planification et de Développement 1962-1982", OPU, Algiers, p 66.
- 8 Akkache, A, "Introduction à la Politique Nationale des Salaires", in la Revue Algérienne du Travail, no 17, January-March 1987, p 19.
- 9 Chikhi, S, op cit, p 7.
- 10 Akkache, A, op cit, p 18.
- 11 Ibid, p 18.
- 12 Benhouria, T, "L'Economie de l'Algérie", François Maspero, Paris, 1980, p 324.
- 13 Ibid, p 312.
- 14 Thierry, P S, "La Crise du Système Productif Algérien", Institut de Recherche Economique et de Planification. Université des Sciences Sociales de Grenoble, 1982, p 312.

- 15 Akkache, A, op cit, p 19.
- 16 Hadj-Lazib, R, op cit, p 66.
- 17 Although the GSE Charter was promulgated in 1971, the actual introduction of the new mode of management into most public enterprises took place only after 1974.
- 18 The 'Plan Comptable Nationale' was introduced only in 1975.
- 19 Circulaire Presidentielle no 932 dated July 6, 1976.
- 20 See the article written by Ben Fayçal "Les Leçons d'Une Expérience", in la République, July 29, 1976. Quoted by Boussoumah, M, "L'Entreprise Socialiste en Algérie", OPU 1982, Algiers, p 614.
- 21 See the comments of the Trade Unions on the 1980 Budget in Revolution et Travail no 389, November 12, 1979.
- 22 Saadi, R N, "L'Entreprise Socialiste: Essai d'Evaluation d'un Mode de Gestion", in la Revue du CNEAP, no 1, Mars 1985, p 46.
- 23 See comments of the Trade Unions, op cit.
- 24 Saadi, R N, op cit, p 46.
- 25 Chikhi, S, "Grève et Société en Algérie", in la Revue du CREA, no 2, 1982, Algiers, pp 85-128.

## CHAPTER EIGHT

### **FINANCIAL PROBLEMS OF PUBLIC ENTERPRISES**

The previous Chapters have examined in depth various aspects of the operations of public sector enterprises, the environment in which they operate and highlighted the structural, economic and management problems they were facing. It is clear that these problems and distortions are ultimately reflected on their finances. This is one of the reasons why the financial problems of public sector enterprises have been left until the end of Part Two. To understand the causes of the financial problems of Algerian public sector industry, it is necessary to consider the various factors, internal and external, which affect their operations. This Chapter can thus be considered as a conclusion to Part Two. It summarises the financial problems of public enterprises and examines the different interpretations concerning their causes. The Chapter is divided into two main sections. The first section provides some empirical evidence about the financial problems of public industrial enterprises in the pre-reform period. The objective of the second section is to examine the various interpretations put forward by the main segments of the larger public sector system to explain the real causes underlying these problems.

#### **1     THE FINANCIAL PROBLEMS OF THE PUBLIC ENTERPRISE**

The financial problems of public sector enterprises in Algeria can be summarised under three main headings: heavy operating deficits, high debt portfolios and a deteriorating working capital position.

##### **1.2   The Problem of Deficits**

It must be noted from the outset that the financial indicators,

and in general all value magnitudes, should be interpreted with particular care and always with reference to the Algerian economic context. In Algeria the market is highly imperfect and the prices in which these financial indicators are expressed depart considerably from equilibrium conditions. Accounting documents are, therefore, unreliable indicators of real enterprise performance. However, an examination of their profit and loss accounts may be useful in giving a rough picture of the problems involved and may allow some inferences to be drawn.

All public industrial enterprises in Algeria, excluding the petroleum company, SONATRACH, reported considerable operating deficits in the 1970's. The Ministry of Planning estimated the total losses in industry to have risen from 408 AD million in 1973 to over 1.88 AD billion in 1978, reflecting a clear deterioration in their finances(1).

This deteriorating financial position of the public sector in Algeria is illustrated in Table 1. The level of losses in all five

Table 1 Deficits of selected public enterprises (1973-1978)

Enterprise	Deficit as percentage of turnover	
	1973	1978
SNS (Steel works)	25.9	16.1
SNMC (Building materials)	16.3	25.8
SONELGAZ (Gas & electricity)	2.7	11.4
SONACOME (Mechanical engineering)	0.94	11.4
SONIC (Paper & cellulosis)	0.30	33.0

Source Ministry of Planning, "Synthèse du Bilan Economique et Social de la Décennie 1967-1978", May 1980, Algiers, p 269.

enterprises was significantly high in relation to the level of their activities in 1978. It is also important to note that with the exception of the steel industry, where the ratio of losses to turnover

remained stable, though at a high level, there was a systematic worsening of the financial position of the enterprises.

A feature of the financial performance of public enterprises is their minimal net contribution to capital formation. A report published by the Ministry of Planning noted that Algerian public enterprises were engaged in the consumption of available assets instead of producing income. It commented " ... while the state could recover some 16 per cent of industrial depreciation charges in 1973, ... no depreciation funds could be generated in industry in 1978" (2). The same document remarked that most public enterprises were not even able to generate enough funds to cover the costs of their production.

Empirical studies suggest that this situation is not so much a function of the costs of gestation or of a temporary slump in their business conditions. It is the result of such basic handicaps as wrong investment decisions, chronic underutilisation of capacity, low productivity, managerial inefficiency compounded by state intervention and defective financial structures which aggravated their cash problems. This is why the Algerian official documents frequently use the phrase 'financial destruction' to suggest not only that the financial problems of the public sector firms are both acute and chronic but that their underlying causes are very complex and related to the structure of the Algerian economy (3).

## 1.2 The Debt Problem

Heavy indebtedness is another manifestation of the 'financial destruction' process which most public industrial enterprises had been undergoing in the 1970's. The adoption of an extensive growth strategy, excessive investment and operating costs combined with the inability to exercise a genuine control over many aspects of their

operations damaged their financial structures and considerably increased their financial needs. Normally, if a private enterprise is in serious financial trouble and reaches the point where it becomes unable to reimburse its contracted loans it is declared bankrupt and liquidated. However, this solution did not apply to public sector enterprises in Algeria. Since their activities could not be interrupted simply because they failed to generate enough cash and since the Algerian financial regulations reject the principle of financing by subsidies, this problem was partially solved by offering the enterprises an easy access to centralised funds in the form of bank loans or overdrafts. Indeed, the government used its control over the banking sector to channel credits to the public sector on a continuing basis.

The result was that the total debt of public sector industry, excluding the hydrocarbon sector, rose sharply from 14 AD billion in 1973 to a staggering figure of 80 AD billion in 1978, an amount which is equivalent to approximately 92 per cent of the country's gross national product in the same year. A breakdown of the total enterprise debt into its various components is shown in Table 2.

It is clear from the Table that although the level of short-term loans and bank overdrafts is considerably high in absolute terms (15 per cent), it is in fact the medium and long-term investment loans which had the largest share of the overall debt portfolio of public sector industry (50 per cent). The Table also shows that public enterprises were becoming heavily indebted to foreign suppliers and financial institutions (24 per cent). It is interesting to note that what is in fact worrying the Algerian financial authorities is not so much the overall level of credit as the ever increasing inability of public sector enterprises to pay back their contracted credits with

overseas and local funding institutions. The Minister of Finance

Table 2      Size and structure of public sector industry debt (end 1978)

Type of loan	Debt (billion AD)	%
1 Investment		
long-term	39.4583	49.25
medium term	4.1534	5.19
external (foreign)	<u>19.6182</u>	<u>24.49</u>
Subtotal	63.2308	78.93
2 Loans for financial rehabilitation	4.7428	5.92
3 Overdraft	<u>12.136</u>	<u>15.15</u>
Grand total	80.1096	100

Source: Ministry of Planning, "Synthèse du Bilan Economique et Social de la Décennie 1967-1978", May 1980, Algiers, p 275.

remarked in 1981 that "In the majority of cases, long-term investment loans are not reimbursed and medium-term credits are transferred from an investment account to an overdraft or short-term credit account"(4).

A last, but not insignificant, aspect of the debt problem is the increase in unpaid overdue debts between enterprises. In effect, delays and failures to pay their suppliers, the acquiring of additional working capital to finance above normal requirements, was a strongly developed and universal process. A large number of public enterprises are reported to have been facing serious difficulties in collecting their overdue debts from their customers (ie. other public enterprises and/or state buyer organisations) either because the latter have serious financial problems or because of disputes over quality, delivery dates and non-conformity with the required specifications of the goods supplied. In some cases the recipient enterprise refuses to pay for its purchases simply because it itself has failed to recover

its overdue debts from its customers. Unfortunately, there are no data concerning the size of the non-recoveries at the national level. However, it is estimated that the accumulated liabilities of the five enterprises mentioned previously represented seven times their accumulated turnover in 1980 while their credit to other enterprises was only twice their turnover in the same year (5). This simply meant that the customer enterprises were getting a free credit equivalent to five times their turnover since the supplier enterprises, if they were to remain in operation, would turn to the bank for further interest-bearing loans. In this way, the bank loses control over the firm's activity. It finances indirectly what it refuses to finance directly.

### 1.3 Deteriorating Working Capital Position

The financial problems in most public enterprises have reduced their ability to self-finance not only fixed capital formation but also their working capital needs. Table 3 provides some data about working capital shortages in selected public sector industries. The Table

Table 3 Working capital and bank overdrafts of five public enterprises in 1973 and 1978 (in billions of AD)

Enterprise	Working capital		Bank overdraft	
	1973	1976	1973	1978
SONIC	127.784	( 756.422)*	15.000	85.000
SONACOME	399.886	337.091	880.000	2,335.000
SONELGAZ	197.000	( 290.000)	92.000	107.000
SNMC	63.515	( 385.810)	140.000	1,850.000
SNS	479.131	1,216.309	1,950.000	3,229.000
Total sample	1,266.816	157.168	3,077.000	8,371.500

Source: Ministry of Planning, "Synthèse du Bilan Economique et Social de la Décennie 1967-1978", May 1980, Algiers, p 80.

\* Brackets indicate a negative figure.



also shows a strong inverse relationship between the shortage of working capital in the industries under consideration and the rapid increase in their short-term debts with the commercial banks (in the form of overdrafts).

Management frequently complained that their enterprises were undercapitalised and badly affected by a shortage of working capital. The thrust of the argument is that debt financing presupposes that the enterprises are endowed with an initial 'cushion' of working capital appropriate to the nature and scale of their operations. It also assumes that enterprises have some autonomy in the fixing of their prices, in the choice of their product-mix and in the choice of the markets which they serve. These requirements which are necessary for any autonomous and responsible management were seldom, if ever, met in practice in the Algerian economic and institutional context. In the absence of such prerequisites, the managers argued, the enterprises had no other option but to revert to the primary banks for more overdrafts if they were to remain in operation.

Although there is considerable truth in these claims, they do not explain the whole issue. The difficulty with this type of complaint is to disentangle cause from effect. Undercapitalisation can be a cause of poor performance, but poor performance can be a cause of undercapitalisation, in the sense of inadequate stocks of capital. The increasing appetite of most public enterprises for additional working capital needs is caused partly by the general and informal practice of hoarding large stocks of material inputs and partly due to the stockpiling of unsaleable finished products. As mentioned on various occasions in this study, the first of these two distorting factors follows from the general conditions of shortage characterising the domestic market for these goods and the difficulties faced by

enterprises in establishing reliable and regular supply links. These conditions have created a built-in safety-first mentality on the part of management who tended to hold large stock of materials and spare parts well in excess of their real needs.

The other distorting factor is the failure of the public enterprise to dispose of its output once produced. Reasons for this are numerous but intimately linked with the type of 'seller's market' which had been institutionalised in Algeria over the last two decades. With no appropriate incentive system, public enterprises were not under any pressure to introduce high quality products; nor to adjust quickly to market demand. They thus favoured production for its own sake irrespective of users' preferences. According to the Minister of Finance the ratio of inventory to turnover reached in the most favourable cases more than six months of the value of turnover achieved by enterprises; a normal figure would be around three months (6).

The shortage of working capital in public sector enterprises is also due to the low productivity of their investments; to delays in getting projects into normal product cycles and to the problem of bad debts mentioned above.

## 2 THE CAUSES OF THE FINANCIAL PROBLEMS

While it may be possible to identify the main factors that have contributed to the financial problems of public enterprises, it is extremely difficult to try to determine the relative weights attached to each one of them separately. In fact, the precise causes of the financial problems of the public enterprises in Algeria are intimately linked with the ambiguity in the definition of their role and functions, with the dilution of responsibility and complexity of the administrative management system in which they operate, and with the

absence of clearly defined criteria for measuring their performance. Consequently, while there seems to be general agreement among various interest groups within the wider public sector system (ie. various central administrations and enterprise managements, trade unions) as to the gravity and long term implications of the 'financial destruction' of the public enterprise, these groups do not agree on its underlying causes. This is currently the subject of controversy in Algeria.

Two major opposing tendencies emerged at the end of the 1970's within the public sector, each with its own reading and interpretation of the causes underlying the continuing deficits and the financial destruction of the nationalised industries. The first tendency, headed by the Ministry of Finance and the Ministry of Planning, favours a thorough reorganisation of public sector enterprises and the introduction of profit as the main criteria for the evaluation of their performance. In particular, this group, which can be called the 'financiers', or the 'economic bureaucracy' has been highly critical of the extensive investment strategy adopted by public enterprises and their sponsoring ministries. They maintain that the financial destruction of the public firms is basically due to their 'autonomistic' policies and to inefficient management.

The other group is led by enterprise managers, the sectoral ministries and a section of the trade unions. They all stand in defence of the public sector and the industrialisation strategy adopted in the 1970's claiming that the financial problems of the public enterprises are mainly due to external constraints imposed on them by the social, economic and institutional environment in which they operate. This group may be called the 'technocrats', 'industrialists', or the 'real-terms' men (7). This section will review some of the arguments put forward by these two groups and

conclude with a brief examination of the official position.

## 2.1 The Bureaucratic View

The 'bureaucrats' maintained that the inability of public enterprises to generate surpluses was due to their pursuit of undisciplined policies and to the absence of adequate financial obligations to force them to rationalise their actions and reduce costs. The assessment of the development effort made by the Ministry of Planning in 1980 and the speech made by the Minister of Finance in 1981 contain the main arguments put forward by this group to explain the financial problems of nationalised industries (8). Broadly speaking, their claims can be summarised under three main headings:

### 2.1.1 Excessive investment costs

The 'financiers' argued that the financial problems of public sector enterprises were due to wrong investment decisions. The costs of wrong investment include the costs of excess capacity, inefficient technology, uneconomic location and inappropriate product mix. It may be recalled from Chapter Four that in general the actual costs of investment projects undertaken in the 1970's turned out to be two or three times higher than the initial planned costs. Delays had a disastrous impact on the finances of the public firms. Indeed, one of the forms of waste during this period was the increasing incidence of delay in the construction of new capacity. This tied up considerable resources without yielding a return either to the enterprise or the national economy. Moreover, the high investment targets and the extensive expenditure programmes adopted by most public industrial enterprises overstretched their modest cash flows while failing to produce any returns either to themselves or to the economy.

It has been alleged that the easy access of most public

enterprises to centralised funds through 'bureaucratic competition' meant that many expensive new projects escaped the discipline of tough-minded economic and financial appraisal. A quotation from the speech by the Minister of Finance illustrates this position well: "In reality, it is often the conditions under which these investments were designed and realised that limit their efficiency. ... How can we assess the financial efficiency of this production unit which costs the country more than 500 AD million in order to produce the equivalent of an annual turnover of 70 AD million, and whose activity is the assembling of (imported) components?" (9).

#### 2.1.2 Excessive operating costs

According to the financiers, if public enterprises were making heavy financial losses and running into heavy debts this is due to inefficient management, the consequences of which are reflected in their excessive operating costs. The data presented in Table 4 gives

Table 4 Running expenses in five public enterprises as a percentage of turnover (Dec 1978)

Enterprise	SNS	SONIC	SONELGAZ	SONACOME	SNMC
1 Materials and intermediate inputs	87	82	21	81	40
2 Expenditures on personnel	25	47	13	13	36
Subtotal (1+2)	112	129	34	94	76
3 Depreciation charges	13	15	23	6	15
4 Debt servicing	28	20	20	11	16
Subtotal (3+4)	41	34	43	19	31
5 Taxes and levies	2	1	1	11	13

Source: Ministry of Planning, "Synthèse du Bilan Economique et Social de la Decennie 1967-1978", May 1980, Algiers, p 278

a breakdown of the cost structure of selected public enterprises. It is clear from the Table that none of the five enterprises studied was able to cover its running expenses from its sales receipts. Unfortunately, this situation is not limited to a small number of public enterprises; it is common to all nationalised industries. According to the advocates of this approach, several factors are responsible for the excessive operating costs.

First, the costs of materials, energy and maintenance work are very high. As Table 4 shows, expenditures on these cost components are considerable in all five enterprises. Expressed as a percentage of turnover, expenditures on materials and intermediate inputs reached 87 per cent in SNS (iron and steel works), 82 per cent in SONIC (paper and polygraphics), 81 per cent in SONACOME (mechanical engineering) and 40 per cent in SNMC (building materials). There is evidence that expenditures on these items are increasing faster than output.

Enterprises attribute this to frequent price rises in world market upon which they depend for the large bulk of their supplies of spare parts and raw materials. It is also the case that enterprises bear the cost effect of price adjustments of locally produced raw materials. However, there is evidence which suggests that high expenditures on intermediate inputs are also the result of an excessive use of materials and the absence of an adequate maintenance policy within the production units. Much is written in the Algerian press about the rapid obsolescence and scrapping of equipment and machinery in Algerian industry. A study carried out in the early 1970's in the industrial sector revealed that the utilisation of raw materials and intermediate inputs per unit of output was on average 10 per cent higher in Algerian public enterprises than in the European firms (10).

Secondly, the share of wages and salaries in total expenditures

are also significant in all Algerian public enterprises. In some cases, these may represent as high as 50 per cent of their turnover, but as a rule they vary around an average figure of 25 per cent. One reason for the inflation of the wage bill in public enterprises is overmanning. That an inflated labour force is a serious problem in Algeria is suggested by a number of reports complaining that overstaffing was a major problem of public enterprises; hardly any enterprise was not overloaded with redundant workers, especially administrative staff. Various examples of specific manufacturing public enterprises that have suffered from this problem can be cited, including the extreme example of a public enterprise that was found to have increased the number of its administrative staff by 5600 between 1977 and 1979, while the number of technical and directly productive workers increased by only 3400 workers over the same period (11). Another example of the abusive and inefficient recruitment of redundant administrative staff, quoted by the Minister of Finance, is an unnamed industrial complex located in the Oran region, where indirect labour represented 60 per cent of the total work force of the complex (12). It should be noted that the worst cases of overmanning occur in factories where the projected personnel required is deliberately inflated in relation to the level of output which is very often far below full capacity (13). It should finally be noted that the financial effects of overmanning are compounded by the pursuit of a high wage policy in the public sector industry.

One final source of high costs frequently noted by the central bureaucrats is the excessive expenditures on social and cultural activities offered by public enterprises to their workers and employees. The enterprises are accused of "leading an easy life incompatible with the country's economic and social reality" (14).

### 2.1.3 The impact on the exchequer

Public enterprises have been accused by the Minister of Finance of neglecting financial viability elements in their decisions, a fact which is apparent in their indifference to the need for reductions on cost, their failure to balance their accounts and their inability to generate net revenue (15). It is held that whatever the explanation the continuing deficits of public enterprises represent a substantial loss of capital. The Minister of Finance expressed his concern over the "serious and widening gap between the high rate of investment and the low returns yielded by these investments", suggesting that public enterprises were far from contributing to the national pool of savings.

The relationship between the size of the public debt and public enterprise investments and its implications for the public exchequer were closely examined by the Ministry of Planning (16). The Minister of Finance also pointed to the aggravating impact of public enterprise deficits and debts on budgetary deficits. To illustrate the scale of the problem, he estimated that current transfers from the public treasury and the banking sector to public firms amounted to 110 AD billion and 40 AD billion respectively at the end of 1979, a figure which is equivalent to the country's gross national product in the same year (17). Thus, the central bureaucrats consider that it was the uncontrolled policies of the public sector enterprises, and not the alleged external constraints placed upon them, which lay at the root of the country's financial difficulties and the ensuing inflationary pressures (18).

In response to the industrialists' claims that public enterprises lacked working capital and that the funds made available to them by the bank were inadequate, leading to curtailed operations and under-



utilisation of capacity, the Minister of Finance warned that the "bank would not be the cashier of the enterprise executing all its payments orders" (19).

## 2.2 The Industrialists' View

The main arguments expressed by this group are to be found in a series of reports published by the Ministry of Industry and Energy in the early 1970's and in a voluminous study prepared by the Ministry of the Light Industries in August 1978 under the title, "A report on the financial problems of socialist enterprises". They are also expressed in various reports prepared by the enterprises themselves (20). Of course, the 'technocrats' refute the arguments put forward by the 'bureaucrats' to explain the financial destruction of the public firms. In their view, any evaluation of public enterprise performance in Algeria must go beyond their financial results to take into consideration a number of external factors which affect their operations. A central argument has evolved around the idea that if the enterprise does not have genuine financial autonomy in its operations then the notion of financial profitability is meaningless. Their arguments can be summarised under five heads.

### 2.2.1 Cost of national gestation (21)

The first idea defended by the industrialists is that public enterprises could not be held responsible for failing to make a profit, because the missions and duties assigned to them within the framework of the long-term growth strategy cannot simply be reduced to make a financial profit. They insisted that public enterprises should be judged in relation to the development objectives assigned to them by the national plan arguing that the financial profitability of an industrial project does not necessarily express its economic

profitability.

Public enterprises in Algeria had been assigned the task of creating and developing new industrial activities. However, if these new industries - which often involve the transfer of complex technologies from abroad - were to grow and develop appropriately in the new environment, public enterprises had to create themselves a whole industrial 'environment'. In doing so public firms incurred heavy costs of national development, eg. technology development and the development of domestic substitutes for imported technology; research and development of a basic character; and technological training on a large scale. In Algeria, these extra-enterprise costs, which are in the nature of overheads relating to a wider spectrum of industry, were not distinguished and accounted for separately; and no mechanism had been designed so as to transfer them to the government budget. In fact, although the purpose and benefits of these activities lie outside their domain, their financial consequences were borne directly by the public enterprises.

#### 2.2.2 Price fixing procedures

Chapter Six has shown that the prices charged by most public industrial enterprises in Algeria were administratively fixed and kept unchanged for many years. They reflected mostly political and social priorities, mainly to fight inflation and to subsidise some priority production or a social group. Most public enterprises contend that their prices are frozen at uneconomic levels. In their view, the administrative fixing of pricing below unit costs is a major cause of the public enterprises' continuing deficits. An interesting and recent instance may be cited in the paper and cellulosis enterprise, SONIC, where the fixing of prices below production costs was found to have been responsible for half of its deficit figure of 210 AD million

in 1979 (22). Another example is the SNMC (construction materials). In this enterprise, the average prices paid to the enterprise were estimated to have covered on average only 66.6 and 73.5 per cent of the cost per ton of output in 1977 and 1980 (23).

### 2.2.3 Taxes and levies

It should be noted that Algerian public sector enterprises are subjected to various taxes and are treated on the same footing as private firms. Up to the end of 1978, public enterprises were subjected to more than five types of direct and indirect taxes and fiscal levies, which according to management and workers contributed to the worsening of enterprise finances. Table 4 above shows that taxes are important cost components in the overall cost structure of all enterprises in the sample. In the area of mechanical engineering (SONACOME) and the construction materials industries (SNMC), for instance, taxes reached 11 and 13 per cent of their respective turnovers at the end of 1978. These taxes most of which are calculated on the basis of the financial accounts of the component operating units (and not the enterprise) are levied on the investment, production and trading activities of the public enterprises (24).

Public enterprises have also complained about the 'conservative' nature of the Algerian system, arguing that it was much more concerned with how to provide the state budget with regular revenues than with the specific activities of the public enterprises; the difficult conditions in which they operate and the requirement that they should balance their accounts. Finally, reservations have also been expressed about the complexity of the tax system and the burden of the administrative procedures involved in the computation and collection of taxes by the enterprises on behalf of the Treasury.

#### 2.2.4 Costs of inadequate financing patterns

According to the industrialists, if public enterprises are making losses and incurring heavy debts this is not their fault. They argue in particular that the financing scheme introduced in 1970 was held to be inadequate for an autonomous and responsible management. As far as investments are concerned, the enterprises attribute the 'financial destruction' to the debt financing scheme introduced in 1970. It failed to endow the enterprises with an adequate equity capital to match their rapid growth. The financing of all enterprise activities exclusively by credit meant in practice that public enterprises were burdened with high interest charges. In the view of the industrialists, financing enterprise operations exclusively by credit reinforces their dependence upon the financial institutions and increases their high financial gearing thus adding to their already high operating costs.

As for current operations, it has been argued that debt financing presupposes that enterprises are provided with an initial 'cushion' of working capital appropriate to the nature and size of their activities. To illustrate this point, the enterprises often refer to the high share of expenditures going to depreciation and debt servicing in their total operating costs or turnover. Indeed, as shown in Table 4, capital charges and debt servicing were major cost elements that had for many years been disturbing the financial equilibrium of the public enterprises. Their relative share in total operating expenditures is by any reasonable standards extremely high. Expressed as a percentage of total operating costs, expenditures on depreciation and debt servicing reached their highest level in the gas and electricity enterprise (SONELGAZ) with 40 per cent and the lowest in mechanical engineering (SONACOME) with 15 per cent.

It is important to note that what is at issue here is not so much the mode of financing enterprises' operations as the latitude left to them in disposing of the funds made available to them. Thus, the technocrats simply did not understand why public enterprises should reimburse the interest-bearing investment loans when the investment projects are decided entirely by the central administration mainly on the basis of macroeconomic, social and regional policy considerations (i.e. to build an industrial base, fight unemployment, promote intersectoral integration, reduce regional disparities ... etc). The proponents of this approach argue that the centralisation measures and the financial system introduced in 1970 introduced disorder into the working of the public enterprises which led to absurd situations. They point to the fact that public enterprises had no other alternative but to "borrow funds from the banks to pay their depreciation allowances to the Treasury" (25). They also argued that "financial profitability ... will never be achieved if public enterprises are made to bear the excessive costs of debt servicing which may lead, through accumulated interest charges, to an intolerable degree of indebtedness" (26).

One final criticism made of the 1970 financial system relates to the suppression of all forms of subsidies to public enterprises when the latter are facing serious financial problems. Since the financial position of an ailing enterprise is usually redressed through the injection of fresh new interest-bearing funds into it, the managements complained that "the enterprises had to pay an interest on their losses regardless of who is responsible for these losses" (27).

#### 2.2.5 Costs of bureaucracy and institutional inertia

Of all the factors considered in this section, the technocrats

would place the greatest weight on politics as a factor undermining public enterprise performance. It has been shown in previous Chapters that there was a "trivialisation of political control" meaning a lack of interest of governments in matters of general policy combined with frequent interference in the everyday operation of the enterprises.

There is also a different, but pervasive, problem, which is the difficulty public enterprises often encounter in developing satisfactory working relationships with the civil service. Quite apart from the problem of detailed interference, there is a frequent complaint that civil service procedures are too cumbersome to meet the needs of commercial operations, particularly budgetary procedures - an important matter because public enterprises in Algeria depend on budgetary support for investment financing and for obtaining working capital. It may be sufficient to recall the complex and deadly-slow administrative procedures involved in the planning and control of enterprise investment, the stringent import regulations and the financing of their current operations to realise how serious the impact of these delays may be for the finances of the public enterprises. In fact, public enterprises see the large number of visas, approvals and authorisation procedures which they have to obtain from a large number of central agencies (banks, Treasury, sponsoring Ministry, Ministry of Planning, Ministry of Trade) before any decision is taken as not only an intrusion in their internal affairs; but also too cumbersome to meet the needs of commercial operations. In their view, the central agencies which affect their operations, through direct or indirect action, should bear part of the responsibility for the poor performance of public enterprises.

Furthermore, according to enterprise managers, the absence of genuine financial autonomy, the multitude of a priori controls and the

quantity of information which their enterprises had to report to external supervisors all have adverse effects on the style of management within them. They create a style of management which gives priority to paper work and the solution of day-to-day problems facing the enterprise instead of concentrating on strategic issues and long-term policies. This state of affairs made the Ministry of the Light Industries draw the following picture of the style of management within the public enterprises: "il n'y a ni stratégie, ni tactique, on est conduit à 'faire le coup de feu'" (28).

### 2.3 The Official Position

The 4th Party Congress (1979) decided to make an assessment of the economic and social situation over the period 1967-1978. The two approaches analysed above served as benchmarks for the work of the special Party Congress meeting held in June, 1980.

It should be noted that, up to 1978, the arguments presented by industrialists were acceptable to a large audience within the state-party apparatus. More important, perhaps, is the fact that this group benefited from the support of the political leadership. Their arguments were also supported by a large section of party members, the trade unionists, the army and other mass organisations. Consequently, their view was in fact the official view. However, as time went by and the problems of the public sector were growing in complexity and becoming more apparent and chronic in character, their position in the party, army and the administration weakened. By the end of 1979 this group had lost much of its previous popularity and the advantage had swung to the bureaucrats' group.

The major shift in the balance of power within the state-party machinery is reflected in the findings of the 'Commission Ad-Hoc Chargée de la Restructuration des Entreprises' (CNRE), the resolutions

of the extraordinary meeting of the Party Congress held on June 15-19, 1980 and the report of the 'Commission Ad-Hoc Chargée de la Restructuration Financière des Entreprises Publiques', (CRFE).

After a brief account of the positive results achieved during the previous planning periods (1967-1978), i.e. regaining control over the country's natural resources and building a large public sector, the resolutions of the Party Congress pointed to the following 'distortions' in the economy:

- underutilisation of productive capacity;
- weak intersectoral integration;
- inefficiency of the economic and social agencies, i.e. enterprises and administrations,
- the inability of the public sector enterprises to generate enough cash to replace and extend their capital stock.

The resolutions attributed these distortions to the following factors:

- the conditions under which investment was carried out;
- inadequate planning and control;
- the utilisation of oil and gas resources at an accelerated rate;
- the development of independent sectoral policies at the expense of the overall cohesion of the national economy;
- the absence of adequate control and evaluation of performance at all levels of the economic system.

The resolutions of the Party Congress made it very clear that the above 'negative aspects' were in the main the result of the excessively autonomous policies of the public enterprises which they saw as weakening the national planning system.

The CRFE Commission which was entrusted with the task of investigating the causes of the financial destruction of the public



enterprises; and to put forward reform recommendations, identified two broad sets of causes: those that are attributable to the enterprises themselves (internal causes) and those which result from external factors which are mainly attributable to the deficiency of the macroeconomic regulations under which enterprises have to operate covering matters such as prices, financing methods, taxation and inter-enterprise relationships. However, the Commission did not mention the negative impact of the civil service planning and control procedures involved in the allocation of centralised investment funds, import licencing and financing on the finances of the public enterprises. Neither did it recognise the effects of the central administration's frequent interventions in their day-to-day management.

### 3 CONCLUSION

This Chapter has attempted to provide some evidence on the poor financial performance of the public enterprises in Algeria. It has shown that the majority of public industrial enterprises were making continuing financial losses and running heavy debts in spite of various relief operations. Studies suggest that this is not so much a function of the costs of gestation or of a temporary slump in business conditions. It is the result of such basic problems as wrong investment decisions; chronic under-utilisation of capacity; low productivity; managerial inefficiency; all these are compounded by government interventions and a defective financial system which aggravated the cash problems of the enterprises.

The real causes of the financial destruction of the public enterprises lie at the centre of a heated debate between two major tendencies within the state-party apparatus. On the one hand, the industrialists, led by the sponsoring ministries and managers, argue

that the enterprises cannot be held responsible for their poor financial performance because they had no control over many aspects of their operations. The centralisation of investment decisions, price fixing methods, financing patterns, stringent import regulations, and excessive taxation are often evoked by this group to justify the financial difficulties of the public enterprise. On the other, the bureaucrats, headed by the Ministry of Finance, claim that it is the uncontrolled policies of the enterprises, their excessive autonomy, and management inefficiency which are at the root of not only their own financial problems but also partly responsible for the inflationary pressures and the country's economic difficulties.

While the arguments of the former group had up to 1979 the strong support of various interests within the larger public sector system, this group lost much of its vitality and credibility after the assessment made by the Party Congress of the economic and social situation. The reforms of public enterprises introduced in 1980 illustrate this change.

This issue will be dealt with further in the next three Chapters, which will be devoted to a thorough examination of the reform measures and will assess the chances of their successful implementation.

## Footnotes to Chapter Eight

- 1 Ministry of Planning, "Synthèse du Bilan Economique et Social de la Décennie 1967-1978", May 1980, Algiers, p 265.
- 2 Ibid, p 265.
- 3 The Commission Ad-Hoc de Restructuration Financière des Entreprises (CRFE), "Cadres, Critères, Canevas de la Restructuration des Entreprises", 1981, Algiers.
- 4 Speech made by the Minister of Finance at a meeting held with enterprises and bank managers in Algiers in 1981 and published in la Revue Financière, January-Mars 1981, Algiers, p 8.
- 5 Ministry of Planning, "Créance Inter-Entreprises", June 1982, Algiers.
- 6 Minister of Finance, op cit, p 14.
- 7 Bouzidi, A, "Bilan de l'Industrialisation en Algérie: Contribution a un Débat", RASJEP, no 4, 1979, Algiers.
- 8 Ministry of Planning, "Synthèse du Bilan Economique et Social ...", op cit and the speech made by Minister of Finance, op cit.
- 9 ibid, p 14.
- 10 Institut de Recherches Economiques et de Planification (IREP), "Etudes sur les Coûts et Surcoûts de l'Industrialisation en Algérie", 1973, Grenoble (France).
- 11 Minister of Finance, op cit, p 12.
- 12 Ibid, p 12.
- 13 This typically happens when there is considerable overmanning at the early stages of the life of the newly installed plant when capacity utilisation is low. For example, the Minister of Finance cited the case of a production unit which recruited some 1658 employees to produce an output estimated at only 30 per cent of full capacity while, under normal conditions and with the plant working at full capacity, the planned work force should not exceed 1088 workers.
- 14 For example, the Minister of Finance gave the following figures concerning expenditures on social and cultural activities in some public enterprises:

SONATRACH	163 AD million
SNS	55 AD million
SONACOME	38.46 AD million
SNMC	29.3 AD million

- 15 This can be illustrated by the following excerpt from the speech of the Minister of Finance: "Moreover, a note should be made of the indifference which the public enterprises show towards their own financial balance since they considered, and still consider, the banking system as a simple supplier of funds", *ibid*, p 13.
- 16 Ministry of Planning, "Synthèse du Bilan Economique et Social", *op cit*.
- 17 The Minister of Finance, *op cit*, pp 6-7.
- 18 *Ibid*, p 2.
- 19 *Ibid*, p 9.
- 20 The three documents are as follows:
- Reports prepared by the Ministry of Industry and Energy published in its annual Review 'Industrie', for the years 1970, 1971 and 1972, Algiers.
  - Ministry of the Light Industries, "Rapport sur les Problèmes Financiers des Entreprises Socialistes", Vols 1, 2, August 1978, Algiers.
  - Bilan de l'Activité Planifiée 1967-1978 des Entreprises Nationales.
- 21 The 'costs of national gestation' is a term borrowed from V V Ramandham which he uses to describe a number of national development costs incurred through the medium of public Enterprises in a developing country. These include costs of technology development and its transfer from industrialised countries, research and development of a basic character and technological training. They also include costs of inadequate infrastructure facilities and road links. See his book "The Nature of Public Enterprise", ed V V Ramandham, Croom Helm, 1984, London, p 130.
- 22 Société Nationale des Industries de Cellulose, "Bilan de l'Activité Planifiée 1967-1978", July 1979, Algiers, p 82.
- 23 Figures computed by the author on the basis of data provided by Berrached, M & Billami, M, "L'Impact des Prix Administrés sur l'Equilibre Financier des Entreprises Publiques: Cas du Cement et de la Viande Rouge", in "Environnement et gestion des Entreprises Publiques Algériennes", Oran University, OPU, 1986, Algiers, pp 95-110.
- 24 In contrast to the previous regime where all taxes were computed on the basis of the consolidated financial accounts of the parent enterprise, the 1974 tax regulations introduced a new tax formulae according to which some of the taxes were to be collected from the component operating units instead. This new procedure was extended in 1977 to other types of taxes. It caused concern and resistance from managements who claimed that this would increase even further the tax burden of the enterprises and aggravate their financial difficulties by

extending the taxable base. For more details on this question see Boussoumah, M, "L'Entreprise Socialiste en Algérie", OPU, 1982, Algiers, p 642.

- 25 Ministry of the Light Industries, op cit, vol 1, p 26.
- 26 Ibid, p 79.
- 27 Ibid, p 45.
- 28 Ibid, p 269.
- 29 The resolutions of the Special Session of the FLN Party Congress (1980) are published in RSJEP, no 3, September 1980, Algiers.

### PART THREE

#### THE 1980 REFORMS OF THE PUBLIC ENTERPRISES

## CHAPTER NINE

### **THE REORGANISATION OF THE NATIONAL PUBLIC ENTERPRISES**

#### **1 INTRODUCTION**

The restructuring of the national public enterprises is the first strand of the economic reform introduced in 1980. It is a key component of a comprehensive, drastic reorganisation of the administration and management of the public sector economy, emphasising decentralisation in decision making and the financial autonomy of public enterprises. According to the reform proposals, public enterprises were broken up into smaller and more manageable units. The 1980 reforms mark the end of a whole era in which the large, diversified and multi-function firm played a predominant role in the organisation of Algerian industry. The primary goal of the restructuring of the public enterprises is to foster more rational use of resources and combat inefficiency. The evident preference of the central planners for a reduction in the scale of the public enterprises stems from the economic, managerial and social distortions associated with the large nation-wide enterprises (1).

If an increasing differentiation of structure leads to a large number of diverse sub-units within an organisation and, as a result, to greater problems of decision-making, coordination and control, then a reduction in their size should lead to more effective functioning of the organisation. Centralised control may be also enhanced as the reforms create the technical possibilities for a more effective allocation of tasks within the public enterprises and more monitoring of performance. This is so because officials can now evaluate performance in terms of financial results rather than by controlling the process of decision-making.

This Chapter will attempt to examine these structural changes and assess their implications.

## 2 THE OBJECTIVES OF THE REORGANISATION SCHEME

The objectives of the reorganisation of public enterprises involve both macro and micro-economic considerations. Seven basic objectives may be identified:

- 1 To counter the over-centralised and bureaucratic structures of the economy and to make its administration more flexible and more efficient. Central authorities are attempting to build up a more efficient information system and an improved model of planning and control. The aim here is to improve and shorten information flows and to introduce a more flexible planning process (2).
- 2 The central planners' preference for small and medium sized enterprises must be understood as a response to the geographical concentration of industry in and around the big urban centres of the north of the country. This has produced a massive rural exodus towards these centres and aggravated the problem of regional disparities. The spreading of public enterprise production activities more evenly across the country is viewed as an appropriate way of dealing with this problem. This policy is also in line with the objective sought by the new leadership to give regional and local authorities more powers in economic affairs (3).
- 3 The systematic reorganisation of the large public enterprises is also linked with the shift in emphasis away from the development of large scale industries and towards the creation of small and medium industries as a means of combating unemployment and encouraging subcontracting. The experience of the large public



enterprises has indicated a lack of development of small industries, subcontracting and specialisation (4). It is hoped that the redeployment of enterprise activities, which were in the past concentrated in the north of the country, will help create more job opportunities in the regions of the interior and south.

- 4 The reform of enterprise structures aims to give a greater autonomy to the operating units so as to stimulate greater efficiency in production. This was a counter measure to the 'excessive centralism' in the operation of public undertakings. The central planners are hoping to achieve considerable gains in productivity through the reduction and redeployment of the administrative personnel in the general offices of public enterprises. It is deemed that the reallocation of the large, but under-utilised, number of qualified technical and managerial personnel in enterprise headquarters among the component production units will improve their performance (5).
- 5 The 'disassembling' of the public enterprises is seen as a means of encouraging specialisation in Algerian industry with a consequent increase in productivity through the reduction of costs and the more efficient utilisation of capacity. Specialisation is also expected to lead to a sharper focusing of managerial responsibilities and tasks by reducing the spread of the management effort over a wide range of unrelated operations. The smaller, more specialised enterprises will have clearly defined tasks appropriate to their scale and competence (6).
- 6 The creation of a larger number of small and medium sized organisations is intended to streamline management and improve the internal organisation of the enterprises. Decision making processes will be speeded up through shorter information channels

and internal control mechanisms (ie. measurement of performance, cost accounting methods) improved. Centralised control may be also be made more effective through a more rapid and effective allocation of tasks and monitoring of performance; and the evaluation of performance in terms of results rather than by a priori administrative controls (7).

- 7 A final implicit objective of the reforms is to reduce the growing influence of a managerial elite in the public enterprises and in the sectoral ministries. With the rapid growth of public enterprises, managers have tended to develop their own spheres of influence within the state-party apparatus which is regarded with suspicion by other central administrations (Ministry of Finance, Ministry of Planning etc). The reformers' emphasis on the transfer of some of the activities formerly under the authority of the sectoral ministries to regional and local enterprises; and the measures aimed at bringing enterprise control managements closer to the production units illustrate this concern. In this sense, the reform proposals are aiming to establish a new balance between the various segments of the wider public sector system.

### 3 GUIDELINES FOR THE RESTRUCTURING OPERATION

In order to achieve the rationalisation objectives mentioned above, the Ad-Hoc Commission fixed a set of rules and guidelines for the reorganisation scheme. Five main criteria were set by the Ad-Hoc Commission for the industrial sector (8):

- 1 Separation of distribution (ie. trade) from production operations whenever technically possible and economically advantageous (9).

- 2 Separation of R & D and capital investment operations from production operations.
- 3 The manufacturing activities themselves were expected to be broken down into smaller and more specialised segments. The main idea here was to create what is called 'basic cores' of similar final products (or product lines) and/or homogeneous production processes. These 'basic cores' of manufacturing operations could then eventually be devolved, whenever technically possible, to new independent firms.
- 4 In accordance with the general policy of territorial decentralisation pursued by the Algerian policymakers, the Commission recommended the definition of new boundary lines between the national and regional and local industrial activities. It proposed the transfer of some branches or segments of industry from the national public enterprises to local and regional enterprises.
- 5 The identification of the 'annexed' social, cultural and training services and their separation from the normal business operations of enterprises. The financing of these activities is to be secured from other sources.

It should be clear from these guidelines that the aim was to narrow and simplify the range of enterprise operations and consequently to achieve a sharper focusing of their obligations. The integration of two or more activities within the same public enterprise would be kept to a strict minimum and maintained only in those cases where there is clear-cut evidence of an economic advantage or where technological factors in production render it necessary.

But how far can the partitioning process go? The Ad-Hoc Commission was quite flexible in its approach. It was in favour of a

case-by-case approach. It has even noted that the task of the Commission was not to act as 'consultancy agency' in organisation (10). This task was left to special work committees which would be involved in the details of the actual implementation of the scheme taking into account the specific conditions and the variety and complexity of the production processes involved.

In fact, the guidelines mentioned above were meant to serve only as benchmarks for the work of the central committees. In all cases, the separated functions and production segments were expected to be entrusted either to existing small enterprises or to entirely new public entities. The restructuring scheme was scheduled to take place gradually over the period of the First Five-Year Plan (1980 - 84). The requirement that the operation should be implemented only gradually aim to avoid any disruptions in production activities.

#### 4 THE OPERATION OF THE GUIDELINES IN PRACTICE

The Decree 80-242 set the legal and procedural framework within which the reorganisation scheme was to be carried out. Two central bodies were created to put into practice and supervise the details of the reorganisation operation: the National Committee for the Restructuring of Enterprises (CNRE) and the Ministerial Committees (CM) (12).

The CNRE under the chairmanship of the Minister of Planning was made responsible for translating the recommendations of the Ad-Hoc Commission and the directives of the First Five-Year Plan (1980-1984) into action. It drew up specific action plans for the reorganisation of each industry. It fixed the priorities and supervised the work of the Ministerial Committees. It was also responsible for coordinating and solving the practical problems which might arise during the

implementation process.

The Ministerial Committees, on the other hand, were designed to assist the CNRE in the preparation and implementation of the reorganisation programme. Because of their closeness to the enterprises and their knowledge of the specific conditions in which these are operating, they were involved in making specific proposals for the reorganisation of each individual enterprise. These proposals were then scrutinised by the National Committee (CNRE) and discussed with the Ministerial Committees in closed sessions. The final draft of the proposed structure was then transmitted to the Government for approval by the Council of Ministers.

The large bulk of the reorganisation scheme took place between 1981 and 1984. A national conference, held on the 29th November 1980 comprising enterprise managers, party officials, senior civil servants and chaired by the Minister of Planning, marked the start of the operation. The public industrial enterprises were given first priority.

The basis on which these enterprises were actually dis-assembled did not depart very significantly from the principles laid down by the Party's Ad-Hoc Commission. The following principles can be singled out:

- 1 Strict adherence to the principles of separating distribution from production operations with the exception of a few enterprises in the heavy industries (iron and steel, metal structures, petroleum, automobiles, public works equipment) (13). The distribution functions were transferred to new enterprises under the authority of either the Ministry of Trade or regional agencies.
- 2 Separation of industrial design and engineering services from production. These research and development facilities were

assigned to new independent national or regional firms.

- 3 The segregation of capital investment operations and manufacturing operations. The operations concerning the installation of investment projects and construction of plants were transferred to specialised independent regional and/or national construction enterprises.
- 4 The disassembly of the production activities which were formerly run by divisions or departments within the same organisation into smaller, more specialised and autonomous undertakings. Thus, the reorganisation of the production operations of the National Steel Enterprise (SNS), for example, gave birth to five independent national enterprises. In the same way, the breaking up of the manufacturing activities of the conglomerate SONACOME (Mechanical constructions) resulted in the creation of seven distinct production enterprises (14).
- 5 Finally, several segments of industry which were previously organised on a national basis (ie, under the authority of a sectoral ministry) are now organised along regional lines (under the administrative authority of local authorities). This rule is particularly applicable to investment construction operations and to several branches of light industries, eg. food processing, construction materials, tooling, crafts and arts etc.

Annexe No 2 summarises the aforementioned changes. It illustrates the basis on which the reorganisation scheme was carried out and the pattern of the new public enterprises together with the location of their head offices.

## 5 THE NEW NATIONAL ENTERPRISES

The reorganisation of the public enterprises has greatly changed

the organisational structure of Algerian industry. It should be noted that the operation is still underway although it was initially intended to complete it by the end of 1985. The major changes brought about are summarised below.

First, the reorganisation has resulted in the creation of a large number of small and medium size entities. This increase in the number of public firms is common to all types of enterprises be they national, regional or local. In particular, the number of national enterprises has risen considerably from about 80 in 1979 to 460 in 1984.

Secondly, despite the decentralisation of some activities to regional and local authorities, the national enterprise is still by far

Table 1 The sectoral distribution of the public industrial enterprises in 1984

Industrial sector	Number of national enterprises	%
Heavy industries	44	33.85
Energy & petrochemical industries	28	21.54
Light & agro-based industries	68	52.31
TOTAL	130	100

Source: Table constructed on the basis of data in 'Statistiques', ONS, No 6, May 1985.

the dominant form of organisation in industry. The partitioning of the former twenty or so industrial enterprises has produced some 130 new national undertakings. The sectoral distribution of these firms is shown in Table 1. In fact, several sectors of industry, although they have been organised along regional lines (eg. many segments of

activities previously run by SNS, SN, SEMPAC, SNIC, SNERI etc) are still under the administrative authority of the relevant sectoral ministries and have not been delegated to regional or local authorities.

The new national enterprises are certainly smaller in absolute size and less diversified than their previous counterparts. They also control fewer operating units or plants. Unfortunately, information about the size distribution of these firms in industry is not available. There are some general indications, however, which suggest that the national public enterprise still occupies a dominant position in the Algerian economy. Table 2 shows the distribution of public enterprises according to their share in total employment after the reorganisation scheme. In contrast to the regional and local

Table 2 Size distribution of public enterprises in terms of their contribution to employment in 1984

No. of employees per enterprise	Number of public enterprises			
	National	Regional	Local	Total
Less than 99	53	216	578	847
100-299	68	139	429	636
300-499	42	45	46	133
500-999	62	32	11	105
1000-1999	86	10	1	97
2000 and over	119	2	0	121
Unclassified	30	60	0	100
	460	504	1075	2039

Source: ONS 'Statistiques', No. 6, May 1985, p.20.

enterprises, the large bulk of the national enterprises are found in the range (1000-1999) workers. The national enterprises employing one thousand workers and over represent just over 94% of total public enterprises in this category.



Thirdly, the reorganisation of the public enterprises has also been accompanied by a systematic relocation of their headquarters in accordance with the regionalisation policy of the Government. These have been moved out of Algiers and relocated in the town nearest to the most important production unit. Table 3 below indicates the magnitude of these transfers. In sharp contrast to the situation prior to the reform where the large bulk of enterprise headquarters was located in and around Algiers, 66.37 per cent of the central offices were moved out of Algiers in 1983.

Table 3     The location of public industrial enterprises' headquarters (1983)

Industrial Sector	Number of enterprises		Outside	
	In Algiers	Outside Algiers	Total	Algiers %
Heavy industries	18	29	47	38.30
Light & agro-based industries	18	35	52	60.31
Energy & petro-chemical industries	5	15	20	75.00
<hr/>				
TOTAL	41	79	119	66.37
<hr/>				

Source: Table constructed by the author on the basis of data in "Mise en Oeuvre de la Restructuration des Entreprises", Ministry of Light Industries, 1983, and in "Algérie-Développement: la Restructuration des Entreprises", Ministry of Planning, 1983, p 10

One final important aspect of the reorganisation of public enterprises is the simplification of their internal structures and the reduction in the number of administrative tiers between the head office of the enterprise and the component operating units. This measure is in line with the central authorities' wish to remove intermediate links, superfluous departments and positions in the higher and medium levels of administration and to bring high management closer to actual

production. The end result of this policy is that the previous influential enterprise headquarters were broken up and their personnel reallocated either to the head offices of the emerging enterprises or to their component production units. Table 4 shows how the 6865 management staff previously employed in the headquarters of nine public enterprise under the control of the Ministry of the Light Industries were relocated. Thus, out of a total 6865 employees in the head offices, over 56 per cent were transferred to the headquarters of new enterprises, over 36 per cent to the production units and approximately 8 per cent transferred altogether to other sectors of the economy. The formal justification for this is the search for a higher productivity through more efficient use of capacity and a better allocation of manpower resources within the enterprises and the production units. It is also a move to reduce the concentration of the specialised manpower in the central offices.

In fact, the new enterprise structures, which were worked out by the Sectoral Committees in close liaison with the CNRE, set strict limits on the number of workers and employees of various skill-categories in enterprises and production units (15). Wage payments made to these workers are also monitored by the central administration and kept well within defined limits. The number of management personnel in the head offices of the new enterprises was severely reduced. It has been reported that this number varied between 50 to 150 in public enterprises subordinate to the Ministry of the Light Industries (16). The norm set for the other industrial enterprises is not too far from this figure. In the new iron and steel enterprise (SIDER), with its 20,000 strong workforce, for instance, the size of the management staff in the head office was fixed at 107 employees in 1984 (17).

Table 4 Reallocation of higher management personnel previously employed in the head offices of  
9 public industrial enterprises.

Enterprises	No. of administrative staff in headquarters before the reform	Number of personnel allocated to									
		General Offices of New enterprises			Production units			Total			
		Algiers	Outside Algiers	Total	Algiers	Outside Algiers	Total	Algiers	Outside Algiers	Total	To other sectors
SNIC	771	282	58	340	153	4	157	435	62	497	274
SNLB	400	-	269	269	64	43	107	64	312	376	2
SOGEDIA	643	133	189	322	116	85	201	249	274	523	52
SONIPEC	389	125	81	206	112	27	139	237	108	345	4
SNEMA	332	111	59	170	98	5	103	209	64	273	28
SNERI	552	63	309	372	143	37	180	286	346	552	-
SONITEX	1279	462	410	872	382	25	407	844	435	1279	-
SNMC	1383	420	273	693	511	170	690	931	452	1383	-
SNSEMPAC	1116	467	150	617	344	155	499	811	305	1116	-
GRAND TOTAL	6865	2063	1798	3861	1923	560	2483	3986	2358	6344	521

Source: Ministère des Industries légères, "Mise en Œuvre de la Restructuration des Entreprises, Point de la Situation". Algiers 1983. Annexe No.4

## 6 IMPLICATIONS OF THE RATIONALISATION OF ENTERPRISE STRUCTURES

The breaking up of the previous branch-wide, multi-function enterprises and their central managements raised serious questions. Broadly speaking these relate to the nature of the relationships between the newly created enterprises, to relationships between the state administration and these enterprises, and relations between the production units within an enterprise.

### 6.1 Inter-Enterprise Coordination

Prior to the reform, a typical branch-wide industrial enterprise was composed of groupings of production units, research and design departments and a supply and sales base. The general office, through its various central directorates, operated as a coordinating body between the various segments of the activity of the branch. Now that the branch-wide enterprises are split into numerous smaller and more specialised independent units, the issue of how to coordinate them or who does the coordinating comes to the fore.

The increase in the number of public enterprises as a result of their restructuring and their functional specialisation increases the number of horizontal links and contacts which may prove very costly if not appropriately organised. The new enterprises may be confronted with coordination problems with new external suppliers and buyers. Since the suppliers themselves are changing sectors, branches or regional agencies, this may cause both temporary friction and serious planning and supply problems. Moreover, as is rightly pointed out by A Bouzidi "if the reorganisation of enterprises is not accompanied by a new mode of regulation of the public economy it will lead to a duplication of effort and a substantial waste of resources, since each of the new independent enterprises will endeavour to acquire its own means and services which were previously shared with other production

units" (18).

In theory, there are two possible solutions to this problem. The first is to leave the enterprise alone to operate in a competitive system of completely autonomous enterprises aiming at maximum profit. In this model, central intervention in inter-enterprise relationships is effectively non-existent and this makes it quite consistent with the operational and financial autonomy of the enterprise. The disadvantage of this solution, however, remains that the decisions and choices made at the micro-economic level may diverge from the macro-economic and social objectives sought by the state.

Inter-enterprise coordination can also be achieved through the establishment of direct medium and long term contracts between the seller and the buyer firms. This would be consistent with decentralisation if, and only if, these contracts are freely worked out by enterprises themselves on the basis of their own perceived interests without central intervention.

In Algeria these contractual relationships are in practice mediated by the central authorities, mainly through the sectoral ministries. The conflicting interests of all the parties concerned (that is, the seller, the buyer and the state) are harmonised and differences between them hammered out through negotiations and bargaining. When the details of business terms are agreed upon (prices, products and specifications, delivery schedules etc) and endorsed by the central authorities, they become part of their respective annual plans. The main advantage of this solution, however, is that it allows a greater integration of Algerian industry. In particular, since the state is actively involved in this process, the changes of enterprises pursuing policies which are not consistent with national objectives (eg. creating backward or forward linkages in

industry) may be minimised. The main weakness of this solution, however, lies in the fact that it may not be compatible with the operational efficiency and the financial autonomy of the public firm. It may lead to slow and inflexible decision-making processes. There is also the danger, particularly when it is practised on a large scale in all branches of industry, of the central authorities becoming involved in the internal affairs of enterprises in the name of the national interest. Past experience is full of examples which show quite clearly that under conditions of a sellers' market, characterised by chronic and persistent shortages of a large number of goods and services, inter-enterprise contracts are extremely difficult to establish and enforce by administrative means. In the absence of external pressures on enterprises to produce goods according to users' requirements and to deliver them on schedule, inter-enterprise contractual relationships will suffer as a consequence. The building up of inter-enterprise unpaid debts is an illustration of this problem (19).

Judging by the various declarations and by the reform measures enacted in this particular area in the early years of the reform, the Algerian authorities do not seem to be prepared to introduce extensive market relationships in the economy. Their main concern seems to lie elsewhere: to restore the sectoral and regional imbalances, to fight inflation, to reduce imports and dependency on world markets through the enforcement of inter-branch and inter-sectoral integration, and to introduce more discipline in enterprise management through tighter planning and control. A particular fear was that market relationships would undermine the role of the plan and the all embracing concept of the 'unitary vision' of socio-economic development.

For all these reasons the reform blueprint opted for the

reactivation and reinforcement of contractual relationships between the newly created enterprises. The implication of this is of course that the central administrations intend to get actively involved in this coordination. Constraints on the role of the market as an instrument for promoting efficiency and organisational equilibrium proved decisive in maintaining the traditional hegemony of administrative and political methods of influencing managerial choice (20).

The reorganisation of enterprise structures may, therefore, be regarded as a search for an improved system of management of the economy and an attempt to introduce some kind of financial discipline and transparency rather than relying on market forces. The breaking up of the public enterprises may result in several possible changes in industrial organisation in the future given the sellers' market in which they operate.

First, the separation of production and distribution functions may lead to compartmentalisation of industry. Each individual enterprise may be under pressure to develop its own sources of supply to face the shortages and uncertainties inherent in the rigid domestic supply system.

Secondly, the separation of production and trading activities may lead to a lengthening of the distribution channels. The introduction of intermediate trade links between production enterprises may lead to additional distribution costs and supply difficulties. The trade enterprises may well be tempted to regulate the flow of goods in relation to their own objectives and management constraints which may not be compatible with the specific supply requirements of the production enterprises.

Thirdly, the introduction of separate trading entities may reinforce even further the widespread practice of neglecting user or

consumer demand. The production enterprise will be under no pressure to adjust its production to market demand and to produce high quality goods. The trading enterprises may become simple depots involved in the 'distribution' of what is proposed to them by the production enterprises.

Another implication of the reorganisation of enterprises is the centralisation of some of their decisions and the transfer to the central authorities of some of their former coordinational functions.

## 6.2 Relationships with the Central Administrations

The issues involved here are not too dissimilar from the ones just mentioned above. The former public enterprises had been frequently responsible for the administration of a whole branch of industry (and sometimes more than one). Their general management had been actively involved in coordinating the various segments of their branch through internal management and resource allocation procedures. The general offices also acted as intermediate links between the operating units below them and the central administrations above them (sectoral ministries, functional ministries, banks. etc )

The reorganisation of public enterprises, that is the emergence of several independent undertakings previously under the authority of one organisation, together with the official reassertion of the role of the plan as the instrument of coordination and control has two consequences:

- 1 The transfer of considerable decision-making authority from the public enterprises to the sectoral ministries which take over the functions of intra and inter-branch coordination formerly carried out by the general management of the enterprises. This is particularly true for research and development activities which have been



transferred to the sectoral ministries.

2 The increase in the number of the public enterprises as a result of their reorganisation has meant that the number of contacts they will establish with the central control agencies (banks, Ministry of Trade, Ministry of Planning) also increases. The decentralisation of decision making authority and the increase in the number of public enterprises which the central authorities have now to regulate and control raise two types of problems.

First, it makes the task of the intermediate links of the central administrations formally responsible for the coordination and control of enterprise operations intricate and complex. It is quite clear that the regulation by these bodies of several hundred enterprises is much more complex than regulating only few large firms. The Ad-Hoc Commission for the reorganisation of enterprises was aware of this problem when it wrote that "The problems of organising the economic coordination will be much more complex and consequently requires intervention of central administration to secure inter-enterprise and inter-sectoral coordination" (21). Several measures were adopted in practice to deal with this problem such as the reorganisation of these intermediate agencies and the recruitment of more qualified personnel. Thus, most industrial ministries have reorganised their internal structures along more specialised lines and introduced special departments for 'planning and development' (22). The banks have also been reorganised. New branches have been created and brought closer to major production areas.

The reinforcement of the state apparatus with new skills and the alterations in the structural configurations of these agencies, however beneficial they may be to central control, will have little to contribute to decentralised initiative and enterprise autonomy. One

may even wonder if these central agencies can ever acquire the ability, the information and especially the required skills to engage in integrating and controlling complex industrial processes.

Secondly, the centralisation of some of the decisions formerly taken within the public enterprises (i.e. research and development operations; intra-branch and inter-branch coordination) together with the reinforcement of imperative planning is certainly not conducive to enterprise autonomy. It runs counter to the stated aim of giving more autonomy to public enterprises and the operating units. In fact the position of the reform programme is still not clear in so far as the relationships of these public enterprises with the central administrations are concerned. What is lacking, in fact, is a new statute which defines the character of the activities of these enterprises and their rights and obligations in such a way as to protect them from the central administrations. As it is, the 1975 regulations governing the relationships of the public enterprises with the central administration have still not been abolished and remain in force. But it is a well-known fact that these regulations grant large powers to the central supervisory bodies and only obligations to enterprises. Past experience has clearly shown that under the regulations public enterprises tended to lose too easily their autonomy and become simple executants of the 'ministries' programmes.

Some writers have argued that the existing 'tutelary' system was incompatible with enterprise autonomy (23). Enterprise managers and workers have pointed out that the search for operational efficiency in public enterprises solely through alterations in their internal structures would fail if not accompanied by major changes in the institutional 'environment' in which they operate and which are at the root of their problems (24).

The crucial point here is how to reconcile the interests of two decision-making blocks: a macro-economic sector dominated by administrative methods and assigned functions of strategic planning and control and a micro-economic sector operating under different rules. The complexity and interdependence of the industrial economy rules out any simple division of function between plan and market. The struggle of public enterprises to establish an autonomous functional sphere of influence within the Algerian institutional context gives way to the traditional system of micro-administrative controls.

It may be interesting to note in this respect that the breaking up of the large public enterprises in Algeria contrasts sharply with an observed trend towards the formation of larger organisations (Centrale, Combine, Union) in Eastern European countries in the 1960s to deal with similar problems, mainly to improve central planning and control. Thus, the formation of large branch-wide organisations each comprising several enterprises engaging in similar or complimentary activities are designed to replace the industrial directorates within the industrial ministries. With an obligation to operate on a commercial basis, these combines are designed to act as transmission belts between the central administration above them and the enterprises below them. The individual enterprises are deemed to be efficient in their operations because they are under the aegis of the Combine or Union and also because they operate as legally and financially autonomous units within these combines (25).

### 6.3 The Autonomy of the Operating Units

It has been pointed out at the beginning of this Chapter that the theme of giving more autonomy to the operating units within the public enterprises was central to the thinking of the reform advocates. The

motive for this is twofold. First, Algerian leaders need them as a buffer against the position of the director-generals of public enterprises. They are also aware that decentralisation at the production level is a precondition for operational efficiency. Any improvements in production and productivity levels must come from a better organisation of work and a fuller use of capacity at the level of the production unit.

These two factors explain the reforms' concern to establish the operating unit as an economically and financially autonomous entity. The dismantling of the former over-populated enterprise headquarters and the reduction in their management personnel together with the subsequent transfer of some of this personnel to the operating units are all cases in point which illustrate these decentralisation drives. These measures reflect a marked change in attitude in recent years in favour of the operating unit which tends to be regarded as the true 'enterprise', that is the basic cell for organising industry. Given this emphasis, one would have expected a clearer view on the part of the reformers about the relationships of the enterprise (general management) with the operating units. Unfortunately, they are far from clear on this point.

Unlike the economic reforms carried out in Hungary and Yugoslavia, where the large branch-wide organisations were abolished, the Algerian planners preserved the two-tier system, that is the general office at the national level and the production unit at the operating level (26). The new enterprises could have been organised so that, in a manner similar to holding companies, they have a controlling and supervisory role but with little opportunity directly to influence the actual running of the production units. This, however, would have contradicted the intention of the Algerian economic leaders to employ

the operating units to carry out state aims (ie through imperative planning). This alone may explain why each individual component production unit has not been turned into an independent 'enterprise'.

The objective of expanding the operational authority of the production unit could not be separated from the problems of functional reform (ie. planning, pricing, resource allocation within public enterprises etc). Enterprise-production units' relationships are part and parcel of the state enterprise relationships. The heart of the problem here is how to reconcile the financial autonomy of the operating unit, one of the principles of structural rationalisation, and the planned vertical relationships of these units with the general office of the enterprise.

The corporate structure of the new public enterprises is in fact not dissimilar to that of their predecessors. In the two-tier system, the general office is viewed as having only 'strategic' functions such as planning, coordination and control, while the component production units having large powers in 'operational' management.

Unfortunately, the reform programme seems to carry over the same ambiguities characteristic of the previous regulations governing the relationships between the general office of the enterprise and the component production units (27). It offers no clear guidelines as to how to draw a line between 'strategic' and 'operational' management, or how to translate such vague terms as the general office's role in 'planning, coordination and control' into useful operational terms. The division of authority between the enterprise and its component units is not clear and is open to various interpretations.

It is not clear, therefore, to what extent operational responsibilities are going to be delegated to the operating units and whether appropriate rules have been made for harmonising production

unit-enterprise interactions. Several obstacles are still in the way of decentralised initiative.

The independence of the individual production unit is limited by the power granted to enterprise heads to alter the functions and tasks of the unit and to transfer functions, tasks, machinery and production from one unit to another. The degree of autonomy depends on how integrated the production unit is within the enterprise, some units may be very dependent while others are relatively free.

The general office also plays a major role in planning. The 1980 reform measures insisted on the need for the reinforcement of planning at enterprise level. The unit is given tasks and plan figures from the enterprise and is fully responsible for the realisation of these targets (28).

Very broadly speaking, there is a two-tier accounting system in the enterprise: for the enterprise as a whole and for the operating unit. The solution of problems important to the enterprise as whole (investments, R & D, mode of financing, supply etc) requires the centralisation of enterprise funds. The production unit's incomes from sales are transferred weekly to the central fund of the enterprise. These funds are then redistributed between the component units in relation to preferences and priorities set by the general management. The implication of this is, of course, that the production units are not allowed to practice self-financing.

The procurement, sales and export-import operations are also worked out and coordinated by the general office. The advantages to the production units of bulk purchases and the reduction in transportation costs are often evoked to justify such practices. The prices charged for the production units' inputs and paid for their outputs are also monitored by the general office. Thus, the operating

units dispose of their products at a uniform price determined by the general office (29).

The aforementioned constraints imposed on the production units and in particular the centralisation of their financial resources suggests that they are part of the enterprise rather than independent business entities. Not only is the degree of autonomy of the production unit determined by the enterprise management, so also is its profit situation. This may have serious consequences. There exists the danger that the units will not be interested in reducing costs. The power of the general office to redistribute centralised financial resources can have a powerful effect on the profit situation of the individual production units. If the enterprise serves as a collection agency for centralised funds and uses these to shore up the ailing parts of the enterprise, the resulting protection may encourage systematic distortions in production and costs among the units. Shielded from the effects of a loss-making performance in their individual markets, the unit managers may become slack and inefficient.

It is for these very reasons that some Algerian observers have questioned the character and role of the general offices and called for the introduction of a 'federal decentralised' system in which these 'bureaucratic' general offices would be replaced with voluntary groups or associations (30). Under such a system, the various operating units are left free to establish their own associations or groups which will undertake marketing and supply operations for their members. The relations of these groups with their member units would be on a purely commercial basis.

## 7 CONCLUSION

The reorganisation of the public enterprises is the central part

of the 1980 economic reform. According to this reform, the former branch-wide public enterprises have been broken up into smaller, more specialised and more manageable units. The management staff in their headquarters was sharply reduced and brought closer to production areas. The main micro-economic objective of this operation was to ensure a more effective functioning of these organisations and to solve the various economic problems within them (eg. the building up of an effective organisation structure, raising the quality of management, harmonising the interests of the production units and enterprises, increasing the degree and efficiency of capacity utilisation reduction costs through using resources in an optimal fashion and the development of a more effective measurement of performance). The reformers were also seeking to achieve macro-economic objectives, mainly to improve central planning and control, to overcome the distortions and imbalances in the economy and to reduce regional disparities.

The assessment of these latter structural alterations, ie. changes in the methods of planning, coordination and control, will be made in more detail in Chapters Ten and Eleven. However, the reorganisation of public enterprises structures has brought to the fore several theoretical and practical problems, which if not appropriately tackled, will stand in the way of achieving these objectives.

First, the breaking up of the public enterprises and the separation of the various functions formerly carried out within the same organisation poses the problem of how to coordinate them. These internal transactions are now either carried out through the market or coordinated by the sectoral ministries. However, given the rigidity of the Algerian supply system and the small management staff in the sectoral ministries, the splitting up of the former conglomerates and disaggregation of their functions may result in supply and distribution



problems. Moreover, the upward shift of decision-making authority from enterprises to the sectoral ministries, which are now involved in intra-branch and inter-branch coordination, is not conducive to enterprise autonomy and runs counter to the central planners' attempt to separate the administrative tasks of the centre from the business functions of the enterprise.

Secondly, the reform of enterprise structures has not been accompanied by a precise definition of the relationships between the various central administrations and control agencies which regulate their resources and supervise their activities. Obviously, the tasks of these agencies become more complex as a result of the increase in the number of enterprises which they have to deal with. The absence of appropriate control mechanisms may result in friction and conflicts between the two levels which are managed on the basis of completely different rules.

Thirdly, the reorganisation of public enterprises has resulted in the simplification of their internal structures. They now control fewer production units but the reform blueprint did not come up with any new arrangements for organising the relationships between the head office and the component production units. It simply carried over the previous ambiguities inherent in the two-tier system.

With these preliminary conclusions in mind it is now time to examine the management and control mechanisms envisaged by the reform. These will be dealt within the next two Chapters.

## Footnotes to Chapter Nine

- 1 See Chapter Three.
- 2 FLN, Commission Ad-Hoc chargée de la Restructuration des Entreprises. "Rapport Général", 1980, p 12, Algiers
- 3 Ibid, pp 34-44.
- 4 See Chapter Three.
- 5 Ibid.
- 6 Ibid, pp 46-47.
- 7 Ibid, p 19.
- 8 Ibid, pp 46-54.
- 9 The term 'distribution' refers here only to the distribution of the enterprise's own output. It does not include the distribution of imported goods. Distribution of imported goods remains under the authority of the relevant production enterprise.
- 10 FLN, Commission Ad-Hoc "Recommandations aux Groupes Sectoriels: Note d'Orientation", 1980, p 5.
- 11 Decree no. 80-242 October, 1980.
- 12 The "Comite National pour la Restructuration des Entreprises", or (CNRE) is an inter-ministerial body. It includes Party and Trade Union members, senior civil servants from the various ministries and banks. The 'Comites Ministeriels', (CM) are composed of the enterprises' director-generals, workers representatives and officials from the sectoral ministry. The CMs are chaired by the sectoral Ministers or their Deputies.
- 13 "La Restructuration des Entreprises Nationales: le Cas du Secteur de l'Industrie Lourde", in "Pour l'Industrie", (Quarterly review), CENIDIL, No. 1, 1984, pp 6-12.
- 14 Ibid, pp 6-12.
- 15 El-Moudjahid, "Restructuration des Entreprises: Passer au Palier Supérieur", June 15, 1984, p 3.
- 16 Ministry of Light Industries, "Mise en Oeuvre de la Restructuration des Entreprises. Mise au Point de la Situation" 1983, p 2.
- 17 Entreprise Nationale de Siderurgie, "Plan annual 1985", 1984 El-Hadjar, p 62.
- 18 Bouzidi, A, "Questions Actuelles de la Planification Algérienne", ENAP/ENAL., 1984, Algiers, p 139.

- 19 The problem of inter-enterprise debts is dealt with in Chapter Eight.
- 20 See Chapter Eleven.
- 21 FLN, Commission Ad-Hoc, op cit, p 145.
- 22 Ministry of Light Industries, op cit, p 12.
- 23 Saadi, N R, "La Restructuration des Entreprises d'Etat: Essai de Présentation Analytique" in Revue des Sciences Juridiques, Politiques et Economiques, No.2, 1984, p 308.
- 24 El-Moudjahid, "Restructuration des Entreprises: les Mesures d'Accompagnement", June 1982, pp 4-5.
- 25 See Metzger, M, "Combine Formation and the Role of the Enterprise in East German Industry". In Jefferies, I, "The Industrial Enterprise in Eastern Europe", Praeger, U K, 1981, pp 95-113  
  
See also Granick, D, "Enterprise Guidance in Eastern Europe", Princeton University Press, 1975, N Jersey, pp 33-48.
- 26 The Hungarian reform blueprint did not foresee the creation of a middle-level superstructure in the industrial sector in the form of trusts or individual associations. With the abolition of imperative planning at enterprise level, the raison d'etre of these intermediate links ceased to exist. See Wilcsek, J, 'The Place and Functions of the State-Owned Enterprises in the New System of Economic Control and Management' in 'Reform of the Hungarian Economic Mechanism in Hungary'. Edited by Friss, I Akademiai, 1969, Budapest, pp 193
- 27 Decree no. 73-177 dated 25.11.1975.  
Decree no. 75-149 dated 21.11.1975
- 28 Chapter 11 will deal with the reinforcement of imperative planning at the enterprise-level.
- 29 Belaiboud, M, "Gestion Stratégique de l'Entreprise Publique Algérienne", OPU, Algiers, 1985, pp 15-52
- 30 Union Nationale des Ingénieurs, Architectes et Scientifiques Algériens (UNIASA), "Comment Débureaucratiser l'Entreprise Industrielle Nationale?", in Algérie-Actualité, No. 1045, October 24-30, 1985, pp 8-9.

## CHAPTER TEN

### **MEASURES AIMING AT INCREASING THE FINANCIAL AUTONOMY OF THE PUBLIC ENTERPRISE**

A number of measures have been taken which indicate that the Algerian planners are increasingly concerned about improving the economic efficiency at the enterprise and production unit levels by granting their workers and employees some authority in decision making. The report of the First Five-Year Plan (1980-1984) noted that the objective of the reform was to "make the enterprise the basic cell of the economy guided by a system of pecuniary interest and endowed with a statute which gives it a large scope of autonomy" (1). The same document insisted that, in supervising and regulating the activities of enterprises and production units, the central authorities should in the future give precedence to the use of indirect instruments such as prices, credit, interest rates, etc (2). In fact, all official documents dealing with enterprise reforms contain several declarations of liberal intentions: (3)

- abolition of unnecessary controls and administrative prescriptions
- separation of enterprise finances from those of the central administration
- enhancement of the role of economic incentives
- leaving more funds at the disposal of enterprises for their free use
- consolidation of direct horizontal links between enterprises
- construction of plans on the basis of norms and calculations scientifically determined and differentiated by branches of activity

These declarations are interesting in the sense that they indicate

the frame of mind and intentions of the Algerian economic leaders and illustrate the economic issues which appear to be most popular in Algeria.

Several important changes have been introduced between 1980 and 1986, all of which aim to increase the financial independence of the enterprise. In this Chapter four sets of reforms are investigated:

- 1 The financial rehabilitation scheme
- 2 Reform of the price system
- 3 Changes in the patterns of investment financing
- 4 Tax reform

It should be noted from the start, however, that the reform programme was planned to be carried out gradually. Indeed, several aspects of the reform proposals are still under discussion and therefore the outcomes remain uncertain. The main objective of this Chapter is to examine these reform proposals and assess the extent to which they can deal with the problems encountered in the period prior to the reform.

## 1 THE FINANCIAL REHABILITATION SCHEME

The financial rehabilitation scheme is one major component of the reforms of planning and management methods. The National Committee for the Reorganisation of Enterprises (CNRE) assigned the task of reorganising the finances of the public enterprises to an ad-hoc commission called the 'Commission Ad-Hoc de Restructuration Financière des Entreprises', or CRFE. It was created in 1981. Its task was to investigate the causes of the 'financial destruction' of public enterprises and to put forward recommendations aimed at an "autonomous, responsible and transparent" financial management (4). Chapter Seven made reference to the work of this Commission and gave a detailed

account of the financial problems involved.

As noted in Chapter Seven, the financial difficulties of most public enterprises in the pre-reform period were caused by a number of complex and interacting factors. On the basis of a close examination of the finances of a small sample of enterprises from the different sectors of the economy the CRFE identified two broad sets of causes: those that are attributable mainly to the public enterprises themselves (internal causes) and those which result from external factors which are mainly attributable to the deficiency of the macro-economic regulations under which enterprises have to operate: prices, financing patterns, taxation, inter-enterprise relationships etc.

The internal causes involve both the investment and production operations of enterprises. Investment projects were generally poorly planned resulting in long delays in the installation of projects and consequently increased investment costs. Moreover, expenditures on infrastructure surrounding the site of the new project (roads, water supplies, etc) and on training of workers and employees were financed from the enterprises' own funds or from ordinary bank loans despite the fact that these facilities yielded a benefit to a wider community.

At the production level, delays in the completion of investment projects led to longer gestation periods. Enterprises faced many difficulties in bringing the newly installed production capacity into full operation. These delays gave rise to excessive operating costs which were also inflated by overmanning and high overhead costs. Enterprises' liquidity was reduced by high inventory levels and by their inability to recover debts from their customers.

The financial haemorrhage from which most public enterprises suffered in the 1970s was due also to the adverse effects of the macro-economic regulations such as the price fixing procedures, investment

financing patterns and the subjecting of enterprises to heavy taxation.

It is in the light of these findings that the CRFE came up in 1981 with a reform blueprint aimed at redressing enterprise finances. Each public enterprise had to go through a process of financial rehabilitation which the Algerian authorities call the 'financial restructuring' of public enterprises. This operation is seen as an essential complement to the reorganisation of enterprise structures. The Algerian authorities are anxious to ensure that the new, restructured public firms will start with sound financial structures.

### 1.1 The Objectives of the Financial Rehabilitation Scheme

The financial reorganisation (or restructuring) of the public enterprises is defined by the CRFE as "the set of measures to be taken by the state and the enterprise in the immediate future and in all domains (not only in financial matters) and also the actions which the enterprise must implement to establish its financial autonomy and bring to an end the practice of resorting regularly to state aid" (5). The scheme will thus tackle the external and internal factors which were at the root of the enterprises' financial difficulties (6).

The reorganisation scheme seeks to introduce financial discipline and profit criteria directly into enterprise decision-making. The report of the CRFE noted that the financial rehabilitation scheme "must work out specific rules which give profit a role in stimulating management efficiency ..." (7). The First Five-Year Plan (1980-1984) also stressed the primacy of profits in measuring the quality of work done within enterprises when it noted that the "... financial parameters must be given preference in appraising the performance of the public enterprises so as to make them more responsible for their activities (8).

Another objective of the financial rehabilitation scheme is to separate the finances of enterprises from those of the state. In fact, "... the rules set by the Commission are designed to allow a clarification of the responsibilities of the enterprise, the banks and the central administration" (9).

The intention to introduce profit as an important performance criterion and the rehabilitation of economic calculation in enterprise decision-making marks a clear departure from the pre-reform conception of the role and functions of the public enterprise in the economy. According to the reform blueprint the public enterprise is not merely a direct instrument for bringing about rapid economic growth and social reproduction, but also a source for the generation of economic surplus.

Why this renewed interest in the 'financial balance' of the public firm? There are several reasons.

First, the confusion in the financial structures of the public sector enterprises has, in the past, produced huge operating financial deficits. Public enterprises could be maintained in operation only at the expense of considerable state support in the form of bank overdrafts and budgetary grants and subsidies. This in turn resulted in severe inflationary pressures, a rise in external debt and the use of oil resources at an accelerated rate. The CRFE emphasised the close link between the financial disequilibrium at the national level and the financial deficits and bank overdrafts made of the public enterprises (10).

Secondly, the Algerian policy makers are hoping to improve the capacity of the public firms to generate sufficient funds to finance not only their own growth but also to contribute to capital accumulation at the national level. This objective is in line with the strategy of the 1979 leadership to do away with the inflationary



financing and the excessive reliance on oil and gas revenues to finance economic growth and development. All the reform documents and official declarations have emphasised that all forms of state subsidies to public enterprises must be abolished in the future.

Thirdly, the Algerian authorities are interested in profit because it performs other functions. The introduction of the profit criterion in enterprise decision making is intended to stimulate and measure efficiency in production. Past experience has shown that the use of several partial indicators, expressed mainly in physical terms has led to widespread waste and has provided no incentive to enterprise managers to use resources efficiently. It is hoped that the profit criterion will cause them to adopt a more 'businesslike' approach to costs (11).

Finally, with the decentralisation of planning and management, risk-bearing and responsibility are expected to be shifted from the state budget to individual enterprises. The profit criterion is the only indicator which is congruent with the highest degree of enterprise independence and initiative.

However, the Algerian planners realise that the profit motive can be introduced only gradually in public enterprises due to the imperfections which exist in the Algerian market and because of the special obligations and functions which the enterprises have to fulfil. Moreover, changes in the 'environment' in which these firms operate and improvements in their internal work arrangements can be brought about only gradually.

## 1.2 Measures Taken Within the Framework of the Financial Rehabilitation Scheme

Measures in four main areas were recommended and implemented by the CRFE. They are all designed to strengthen the financial viability

of the new public enterprises and establish their financial stability.

#### 1.2.1 Structural and management changes

The reorganisation of enterprise structures is expected to improve internal control procedures and to render the accounting system more transparent. These changes are designed to improve the financial position of enterprises by permitting a better allocation of resources with a consequent reduction in operating costs.

#### 1.2.2 Financial measures

Three main financial measures have been introduced. First, public enterprises have been provided with complementary capital funds to finance some of their fixed and working capital. This followed complaints made by managements and workers during the reform debate that the financing of enterprise operations exclusively by interest-bearing bank loans was costing the enterprises too much in the form of accumulated interest charges. In the past most investment projects were financed from bank loans and were not endowed with adequate capital funds to start production. This placed the public enterprises in a position of complete dependence on the banking system for the financing of their activities. The size of the capital donations "are fixed in relation to the type and level of activity of the enterprise" (12). The move away from debt financing to equity financing is designed to reinforce the financial autonomy of the public enterprises and to limit their demands for further bank loans and overdrafts.

Secondly, the debts contracted in the past by the parent enterprise have been distributed between the new enterprises. In order to alleviate the debt burden on enterprises many of these debts were rescheduled and will be paid according to the new repayment

conditions (13). In some other cases these debts were either written off altogether or simply transformed into capital endowments. Funds earmarked by the 1983 Budget for the financial rehabilitation scheme were fixed at 100 AD billion (14).

The third financial measure decided by the reformers was the identification and separation of capital expenditures on infrastructure surrounding the site of investment projects. These operations are now financed from budgetary funds. The 1983 Budget, for instance, earmarked 500 AD million for the financing of the pre-investment operations and worker training schemes. In contrast to the pre-reform period, the social and cultural activities are now accounted for separately and financed from a special national social fund.

### 1.2.3 Settlement of inter-enterprise debts

The size and significance of inter-enterprise debts was deemed to be "one of the constraints which placed a heavy burden on enterprise finances" (15). The participants of a seminar held in Algiers in 1983 on the financial restructuring of enterprises came to the conclusion that the liquidation and recovery of all inter-enterprise outstanding debts was a pre-requisite for the implementation of the financial rehabilitation scheme (16).

Indeed, most inter-enterprise debts had been settled over the period 1982-1986. Moreover, the CRFE put forward an administrative procedure for the settlement of all future inter-enterprise transactions. Since the financial resources of a public enterprise are kept in one single bank account, the bank acts as an intermediary link between the seller and buyer enterprises. However, it would appear that this procedure was more concerned about ensuring a full control over financial flows in the economy rather than about offering a solution to the more serious problem of inter-enterprise disputes and

conflicts which are at the root of these unpaid debts. Past experience has shown that the arbitration commissions set for this purpose failed to deal with these problems.

#### 1.2.4 Reactivation of the indirect economic and financial levers

The proposals of the CRFE comprised also a series of recommendations dealing with the reactivation of the role of credit, prices and taxes in the regulation and control of public enterprises. Because of the particular significance of these measures and their pertinence to this study, they will be examined in more detail in the following sections.

#### 1.3 The Implementation of the Financial Rehabilitation Scheme

The financial rehabilitation scheme started officially in the early months of 1983, and was expected to be completed by the end of 1984. Each new public enterprise had to go through a process of financial rehabilitation. The operation was to be carried out according to a 'plan de redressement' worked out by the CNRE and approved by the Government.

Each enterprise was required to construct a financial rehabilitation programme over the period of the Second Five-Year-Plan (1985-1989) on the basis of an assessment of their performance over the last four years. This is a simulated projection of their financial situation on the basis of different scenarios and hypotheses regarding changes in their major management variables (cost structures, changes in prices, sales, procurement, financing schemes, etc). A uniform procedure for the construction of these plans and the presentation of data was provided by the CRFE.

In practice, this operation has proved very complex. The work involved in the distribution of the assets of the parent enterprise

among the new firms was reported to have taken much longer than expected (17). The public enterprises have in addition faced tremendous difficulties in constructing accurate plans which extend over several years in the future.

These two factors alone may explain why the financial rehabilitation scheme could not be carried out on schedule. The operations extended well into 1985 (18).

## 2 REFORM OF THE PRICE SYSTEM

The most important and politically sensitive aspect of the reform involved the activation of prices as levers for regulating decision making. It had become increasingly evident in the decade prior to the reform that the old system of inflexible prices, serving mainly as accounting devices and instruments of social and political policy produced serious misallocations and distortions.

- 1 Prices had been administratively fixed and kept constant for several years. The consequence of this is that prices paid to producers for their output were fixed at levels much lower than the costs actually incurred in their production and distribution. This led to operating deficits which could be covered only by state subsidies. More important perhaps than the scale of these deficits is the dilution of responsibility for the financial results of the enterprises which they produced. Prices lost their function as instruments for the control and appraisal of the system of production.
- 2 In the period before the reform, prices were poor indicators of relative scarcities, that is, they could not communicate information on demand and supply. The report of the CRFE noted that "The administrative freezing of prices over a long period

renders them devoid of any economic sense, they have been transformed into passive constraints" and as a result they could not be used to serve as "instruments to guide planners in the allocation of resources, in the distribution of goods and services and in the distribution of incomes" (19).

- 3 The existing price system was also criticised on the grounds that it failed to stimulate an interest in efficient resource utilisation, improved quality and technical progress. Thus, the CRFE pointed out that the "chaos in the process of price formation disorganises economic activity and lowers the general level of efficiency in the economy by acting as an incentive to waste resources" (20).

Consequently, the 1980 reform called for a basic change in the existing price system. The Five-Year Plan (1985-1989) stressed that "flexible mechanisms for the formation and revision of prices must be worked out so as to reduce, if not to remove, the distortions which have arisen in previous periods" (21). A price reform was also considered as a necessary prelude to the rationalisation objectives sought by the reorganisation of public enterprises. It was recognised that the financial rehabilitation scheme "will have little impact if it is not backed up by a new, rational price system which takes into account two fundamental elements: the protection of purchasing power of the low-income families and the need for enterprises to balance their accounts" (22).

An Inter-ministerial Committee was set up in 1982 and assigned the task of constructing a new price system, and steps were taken to reorganise and revitalise the "Institut National des Prix" to provide a logistical base to the work of the National Price Committee (23).

Given the political sensitivity of the price issue and its wider

implications, it was officially stated that change in this area could be brought about only gradually. The introduction of an adequate price system will take several years to work out and implement so as to allow all producers to adjust their production structures.

The Inter-ministerial Committee put forward in 1982 a set of economic rules to serve as a guide for future price fixing policies. Unfortunately, this study could not be made available to the author. However, the main recommendations and the rules proposed have been the subject of comment in the press and have been summarised in official documents.

The fundamental idea of the new pricing procedures is to relate producer prices to production costs. The Algerian authorities regard prices which are properly linked to full costs as important for rational decisions within enterprises and for the efficient allocation of resources at the national level. In the absence of shadow prices, the cost-based prices are certainly better than prices which are not related to costs at all.

The Algerian planners make a distinction between producer and consumer prices. Broadly speaking, a producer price is the price at which manufacturers supply their products to one another, to construction organisations and to supply and sales establishments. Consumer prices, in contrast, are those prices at which goods and services are sold to final consumers and users.

The move towards cost-based prices is motivated by the central planners' desire to eliminate state subsidies to production enterprises and to make prices more reflective of relative scarcities. The prices paid to producers are expected to lead, in conjunction with the measures aimed at rationalising enterprise finances and decision processes, to the adoption by managers of tighter measures to control

and lower costs. This rationalisation policy is planned to take place in two stages. In the first stage the price fixing policy will seek to restore the financial balance of the public enterprise. The basic principle here is that producer prices are fixed so as to cover fully the socially justified costs involved in their production. In a later stage, when enterprise activities are stabilised and on the basis of prices more accurately related to costs, producer prices will be expected to cover not only production expenses but also to allow enterprises to make a profit on a rational cost basis (24). This latter requirement is particularly needed for the achievement of the stated aim of enterprise reforms to encourage self-financing in public enterprises.

The implication of the adoption of cost-based prices is that if the state wishes, for one reason or another, to keep the prices of certain products at a level lower than the actual costs incurred in their production then a subsidy should be paid to the producer of those products. These subsidies may come from either the state budget or from a National Compensation Fund established in 1982 (25). As a rule, when the need for such a practice arises, subsidies are to be made preferably outside the production spheres. In other words, subsidies will be granted to trade enterprises or to distribution activities carried out by production enterprises. The Second Five-Year Plan (1985-1989) noted in this respect that "in order to comply with the principle of financial profitability, it is necessary that the financing of the difference between the actual cost and the price at which the product(s) is sold must be calculated and accounted for separately and that any subsidies will be granted as a rule outside the production spheres" (26).

As far as the prices charged to consumer are concerned, the new



price system is seeking to keep the prices of mass consumption products within the reach of low income families. At the same time the pricing policy aims to stimulate rational behaviour among consumers and to provide a means of influencing the level and structure of consumer demand (27).

To put these reform measures into practice the Government introduced a series of price increases between 1983 and 1985 for almost all basic industrial goods, construction materials, fuels and consumer goods (28).

Despite all these good intentions and the rationalisation of the pricing system, it should be noted that public enterprises are still not free to fix the prices of their products. The Five-Year Plan (1985-1989) distinguishes between two types of prices. This classification replaces the former four-category system (29).

Prices which are centrally fixed. These include strategic products and basic food products which have a significant impact on the national economy and on the purchasing power of low-income groups. This category of prices includes those products which are subject to state budget subsidy or to compensation from the National Compensation Fund.

Controlled prices. These include all remaining products. Unfortunately, the price classification does not give a detailed list of the goods and services involved in each product category. However, the distinction seems to be only formal since enterprises are not free to set the prices of their products. Any price increases must get the prior approval of central authorities; the prices of the first category of products are fixed by decree in the Council of Ministers, while the prices of the second category are negotiated with the sponsoring ministry of the enterprise concerned. Price increases are

much harder to obtain for the first category of products than for the second.

The linkage of prices to costs makes sense only to the extent that costs are computed accurately. This raises the problem of allocating costs in enterprises producing a variety of products. This problem of cost allocation is a major obstacle to the implementation of an effective pricing policy in Algerian industry. The reorganisation of public enterprises and the reduction in the range of their products and activities is intended to encourage and expediate the introduction of modern cost accounting methods to deal with the problem.

It is argued by many Algerian economists that effective decentralisation can be based only upon a price system which reflects economic realities, i.e. scarcities and social costs and priorities. The reforms have introduced certain improvements. Prices have been raised to eliminate losses in several branches of industry and adjusted to reflect social costs more accurately. However, it is clear that prices are to be kept under strict central control. They are fixed for a period of six months. Any requests for price rises must normally be justified by managements on the basis of changes in their cost structures or changes in productivity. However, since most public enterprises retain considerable monopoly powers and given the desire of the central planners to maintain considerable control over the product-mix decisions in enterprises, it is very unlikely that central authorities will succeed in exercising pressures on enterprises to reduce costs and operate efficiently.

### 3 CHANGES IN THE PATTERNS OF FINANCING ENTERPRISE INVESTMENTS

The revision of the financing patterns of enterprise investments is another important element in the enterprise reforms. The basic aim

here is to do away with the type of problems which have emerged in the past under the centralised system of financing investments. In contrast to the previous system of allocating centralised funds on the basis of mainly macro-economic and social considerations, the new measures are intended to increase the role of credit and the banking system in the allocation of investment resources. Under the new regulations, public enterprises are also expected to rely more heavily on retained earnings in the financing of their investments.

It should be noted, however, that the reform measures in this area are formulated only in general terms. Detailed measures have still to be decided. This section will attempt to examine these new proposals and to assess the possibilities of their implementation. The first part examines the measures aimed at reinforcing the role of credit. The second part deals with the new proposals of self-financing.

The CRFE laid down four basic principles which are to govern the financing of enterprise investments in the future (30).

- 1 Borrowing to finance investments will take the form of long-term loans. The object here is to relate the financing patterns to the ability of the investment projects to generate returns. Past experience has shown the large discrepancies which existed between the physical planning and installation of investment projects and the financial planning of the projects. Frequently the loans contracted to finance the investment expired before the project was completed. In many cases, too, the time lag between the installation of the project and full production working was lengthy. To deal with these problems the time limits set for the reimbursement of the investment loans were extended to take account of these delays and difficulties. Financing of investments by medium-term loans was abolished.

- 2 Variable and differentiated interest rates which will vary from one branch of industry to another to reflect central planners' preferences were introduced. Interest rates are expected to vary from as low as 2 per cent to a level reflecting the current inflation rate.
- 3 The automatic financing of investments is to be abolished. Banks and financial institutions will have a say in investment decisions.
- 4 The financing of enterprise investments will be secured through three main sources:
  - Bank loans (local and foreign)
  - Budgetary allowances
  - Self-financing
- 5 A new system of depreciation rates adjusted to the life cycle of the project was proposed.

### 3.1 The Reactivation of Credit

It may be recalled that prior to the reform the primary banks had almost no say in investment decisions. Their role was reduced to channelling centrally determined investment funds to enterprises. Although credit was retained as the main source of financing this was slowly transformed into a formalised system of budgetary allocations. The excessive centralisation of investment resources together with the administrative procedures involved in their allocations produced distortions, delays in project construction, high investment costs, and the absence of clearly defined locus of responsibility for failure to implement the investments. Moreover, the practice whereby public enterprises started investment projects but could not complete them according to plan seriously disrupted their financial structures. The

effects of this competition on over-centralised investment resources produced severe inflationary pressures and led to a drastic fall in the productivity of capital as the central planners lost effective control over the amount and planning of investment projects undertaken by enterprises.

It is against this overall background that the reform measures were introduced. Changes were introduced in the operation of the banking and monetary system. The aim was to give more powers to the banks in financing investments in the productive sector. In particular, the banks are expected to play a major role in the appraisal and selection of investment projects (31). The revitalisation of the role of banks had three main objectives.

The first was to relieve the pressures on the state budget. Banks will be empowered to use normal credit and interest mechanisms to intensify their search for savings in both public and private sectors. This new task assigned to the banks is quite in line with central authorities' policy of gradually replacing inflationary financing and the use of oil revenues by internal sources, mainly private savings and enterprise profits. The Five-Year Plan (1985-1989) noted that "savings of the various economic agents (eg public and private enterprises, households, etc) must be mobilised, and then selectively channelled and allocated to alleviate the state contribution to the financing of development" (32).

The second objective was to make the existing system of investment financing, with its bureaucratic delays and distortions, more flexible (33). The use of credit, it is argued, will offer the state the possibility, without becoming involved in individual investment decisions, indirectly to influence the direction and rate of utilisation of enterprise development funds.

The third objective is to encourage enterprises through the discipline of interest rates to use investment funds more effectively, thus reducing their demands for central funds and leading to improvements in their finances (34).

To achieve these objectives, the advocates of an active credit policy suggested that the financial viability of investments must be accorded priority in the selection of new investment projects and called for increased autonomy of the banking system from the political authorities. The official position is that particular attention will be given to the conditions of project preparation and to the necessity to improve the efficiency of capital and in particular to yield quicker returns on capital (35).

The arguments in favour of banks 'taking over' the investment decisions recognised implicitly the creation of a direct relationship between investment expenditure and the profits realised from it (36). This means that the banks would be actively involved in the analysis of enterprise investment requests and assessment of the risks involved in the estimation of their expected future returns. They would be free to grant (or refuse to grant) loans to enterprises if the project is judged to be not credit worthy.

One of the innovations of the 1980 economic reform is the identification of two types of investments: 'centralised' and 'decentralised' investments. The new financing procedures vary with the type of investment.

Centralised investment includes 'structure-determining' or strategic projects which involve new capital formation of particular importance to the economy or industries. They are termed strategic because they affect the basic proportions of the national economic plan. Unfortunately, there is no detailed list of the projects

included in this category. But their most characteristic feature is that they involve the introduction of new industrial capacity (eg. establishing new plants and new industries). This category of investments is decided by central authorities. The final decision whether to invest or not formally rests with the Ministry of Planning. The Algerian Bank for Development (BAD) is responsible for the financing of these investments. Centralised investments are financed exclusively by long-term state loans granted on favourable conditions. The Second Five-Year Plan (1985-1989) noted that "The BAD will appraise and finance investments in strategic sectors of the economy which, owing to either their scale or their impact on the rest of the economy, require special financing conditions by the state" (37).

These state loans may be complemented with non-repayable allocations from the budget to cover expenditures on worker training schemes and on surrounding infrastructure involved in the installation of investment projects.

Decentralised investments are all those investments which remain outside the scope of the first category. They include capital expenditure connected with the expansion of the existing production units; with retooling; replacement and minor reinvestments aimed at adjusting production to market demand. In theory, these investments are carried out by enterprise directors and supervised only broadly by the annual and pluri-annual plans (38).

The financing of such investments is expected to come from two main sources: bank loans and enterprises' own funds. According to the reform blueprint the primary banks will be involved in the analysis, appraisal and financing of modernisation and replacement operations from their own resources. The CRFE noted that "this category of investment (ie. decentralised) will be left to the joint

assessment of the enterprise and its bank since the latter is in a better position to judge the performance of the former" (39).

This new form of guided decentralisation of some investments is motivated by two factors. The first of these is to make sure that public enterprises would request only those investments which are economically and financially sound since it would be these which would have the funds for expansion. The second reason is to provide enterprise managements with the incentive to expand as a means of earning higher profits.

How serious are the Algerian authorities about using credit and interest as levers in the allocation of investment funds? The answer to this question is not easy. Although the need for change is real and genuine, this change can be brought about only gradually because of social resistance and institutional inertia. This has meant that the reform proposals must be seen from within a long-term perspective. However, there are several obstacles in the way of implementing an active credit policy in Algeria in the immediate and medium-term future.

First, the proposals about the reactivation of the role of credit in the allocation of investment resources have been worked out within the framework of the national economic plan. The Ad-Hoc Commission noted in this respect that "the objective here is not at all to question the principle of centralisation of the financial resources but rather to make more flexible and more efficient the mechanisms whereby these centralised funds are put at the disposal of the public enterprises" (40). Up until 1986 all enterprise investments in industry including those that are labelled 'decentralised' investments, have in practice been planned in detail well in advance and approved by central authorities in much the same way as they were before the



reform.

This means that the central planners intend to maintain strict control over all investment decision powers vested theoretically in the enterprise directors. Under these circumstances, the distinction made between 'centralised' and 'decentralised' investments becomes superfluous. The reform initiators seem to equate the financial autonomy of the enterprise with the method of financing. In fact, the financial autonomy of an enterprise does not depend on the source of their funds but on the latitude allowed in disposing of them. Financing through credit would be quite in line with decentralisation if, and only if, bank loans could be obtained without the bank, or any other central authority, designating the purpose to which the loans are to be applied (41). In Algeria the banking system is still founded on extending credits for specific expenditures which is, in a sense, empowering the bank to take investment and production decisions for the enterprise (42).

Secondly, the success of the reform proposals depends very much on the progress made in the reform of the price system. If prices, including the price of capital, are to reflect social opportunity costs, they must be fixed so as to reflect not only production costs but also relative scarcities. The Algerian price system is still highly distorted and it will be several years before a genuine price reform is actually introduced.

Thirdly, the public enterprises still operate in a highly rigid market. The smooth circulation of resources in an enterprise depends to a large extent on the conditions of supply of material inputs, while the conditions of supply reflect the current market conditions. In a buyers' market the only constraint on supply is the amount of financial resources available; in a sellers' market, availability of material

resources (equipment, raw materials, spare parts) becomes of prime importance. Lack of materials can make it impossible for an enterprise to carry out an investment even though it has been provided with the appropriate financial resources. All these constraints restrict severely the enterprise's authority in financial decisions.

Fourthly, the neglect of the banking system for more than two decades has meant that it has become inadequately staffed. If the banks are to be extensively involved in the selection of investments and complex financial analysis, they need a large number of qualified and skilled personnel which is in short supply in Algeria.

Fifthly, the active use of credit and financial levers depends to a large extent on the financial independence of the public enterprises and the changes to be brought about in their financial structures. The financial rehabilitation scheme, which is still underway, will take several years before it is accomplished. The use of indirect economic and financial parameters requires also the revision of the legal and economic status of the public enterprise and its mode of operation. Without drastic economic sanctions such as bankruptcy, economic levers would be less than effective. The powers of the enterprise managers and their rights to hire and fire workers and employees are severely restricted by the state's commitment to full employment.

### 3.2 Self-Financing in Public Enterprises

The reform proposals have also stressed the importance of, and the need for, self-financing in public enterprises as a means of enhancing their financial autonomy and stimulating management initiative and authority. Self-financing, in the sense of an enterprise expanding through its own internal sources, is now allowed and even encouraged by central authorities. In effect, the various financial measures legislated by the reform, i.e. the financial rehabilitation scheme,

changes in the financing patterns and price revisions, are intended to improve the self-financing capacity of the public enterprises (43). The aim is to increase the funds left in enterprises.

Although the reform programme is still not clear in so far as the financial system of the public enterprise is concerned, it has been established that self-financing will be secured through several sources: depreciation charges, retained profits, capital endowments from budgetary sources, reserves and sale of unused fixed assets etc. All these form what is called the Development Fund of the Enterprise.

Prior to 1976, all depreciation charges were siphoned into the state budget in payment of the contracted investment loans. Public enterprises are now allowed to retain part of their depreciation allowances to finance renovation and replacement investments. These are expected to play a major role in the financing of investments in branches of industry which use capital intensive technologies such as petrochemicals, electronics, machine tools and metal manufacturing industries. There have been talks about reforming the depreciation rates to be used in industry. The new rates would allow, in addition to physical wear and tear, for inflation and technical progress. However, the reform proposals are not clear about how much discretion will be left to enterprise managers in disposing of these depreciation charges.

Retained profits are another source of financing 'decentralised' investments. The amount of profits that an enterprise can make depends not only on the costs but also on its financial structure. An important element here is the prices paid to producers for their products. The recent adjustments of many producers prices are precisely designed to allow enterprises to earn satisfactory profits, a proportion of which will be used to feed their development funds. The

financing capacity of a public enterprise depends also on the degree of autonomy left to its management to determine the level of profits to remain within the enterprise and to designate the different uses to which these profits may be put. In Algeria the authority of management in the use of financial resources is determined by the regulations governing enterprise funds. According to the 1975 financial system, net profit is measured by the residual of an enterprise's sales revenues after deduction of the following costs: expenditures on labour and material inputs; depreciation charges; rental payments; interest charges on loans and credits; tax charges and a special allowance to cover losses carried over from previous accounting periods. These net profits are, when they exist at all, then allocated by the central administration to three main uses: the development fund, the profit-sharing fund and the state budget. However, due to the financial difficulties of most Algerian public enterprises and to the excessive centralisation of their resources, these regulations were not implemented and consequently self-financing possibilities were not realised.

Given the central planners' emphasis on decentralised initiative and the financial autonomy of the reformed enterprises, one would have expected a clearer division of authority between the enterprise and the centre in this particular area. The function of enterprise funds is to define the degrees of freedom of the enterprises in the use of the financial resources at their disposal. Unfortunately, the reform initiators do not offer any clear guidance about the projected financial system of the public firm and its close link with self-financing.

Self-financing may be hindered in practice by several obstacles many of which are the same as those which constrain the use of credit

and rates of interest as economic levers. Three more constraints can be added. The first of these is that profit is still not the lynchpin of the enterprise plan (44). The second obstacle is the slow progress made in the implementation of the financial rehabilitation scheme. The Five-Year Plan (1985-1989) noted that "at the enterprise level their capacity to generate funds will in general depend on their working conditions, on the success of the rehabilitation scheme and the introduction of a new price system" (45). In fact, some of the causes of the financial 'destruction' of public enterprise do still persist and will certainly extend well into the future. This is due to several constraints imposed by the institutional setting in which these enterprises operate and which remain untouched by the reform (market structures and supply conditions, state monopoly over imports, administrative interventions in enterprise affairs etc). Despite these constraints central authorities seem to be determined to push ahead with self-financing. The Minister of Finance declared in 1984 that public enterprises will be expected to finance 25 per cent of total investment expenditures during the (1985-1989) Plan (46).

The third obstacle is that enterprise investments, including those which are financed from its development fund, are subject to detailed central planning and control procedures. Annual investment plans are constructed by enterprises and approved by central authorities. This has meant that managements are not allowed to dispose freely of their development funds. The very fact of the existence of several enterprise funds indicates the constraints on the allocation of financial resources among different uses. Confirmation by the central planning office of plans for the use of these funds frequently turns into direct allocation of funds by the higher authorities.

#### 4 REFORMS IN ENTERPRISE TAXATION

Enterprise reforms have also promised changes in the position of the Algerian public enterprises vis-a-vis the tax authorities. The aim is to alleviate the tax burden on their finances and to enhance their financial independence.

The debate on whether to subject public enterprises to the same tax obligations applied to private firms is not new in Algeria. The analysis made of the worker participation scheme introduced in 1971 and the subsequent conflicts which emerged in connection with the calculation of enterprise profits illustrate the nature of this debate.

Relationships between the state and the public sector enterprises have in practice been notoriously ambiguous with respect to taxes. This ambiguity stems mainly from the contradictory position of the state in its relationship with the public enterprise, that is its position as a 'shareholder' and owner of public enterprises and at the same time as a 'regulator and tax collector'. Thus, as the owner of its assets, the state employs public enterprises directly to carry out its aims, which are not always compatible with financial viability, but as a tax collector the state treats them as though they were profit-seeking private firms.

It may be recalled from Chapter Eight that public enterprises have been subjected to several direct and indirect taxes. These were imposed on both investment and production operations. Moreover, many of these taxes have been calculated on the basis of the financial accounts of the component production units and not on the basis of the consolidated accounts of the parent enterprise. Since taxes are considered in Algeria as cost items this has meant that excessive taxation does have a direct bearing on the profit (or loss) situation of enterprises. The report of the CRFE showed the close link between

the level of taxation and the financial 'destruction' of public enterprises (47). It was estimated, for instance, that tax charges accounted for about 30 per cent of investment loans granted to public enterprises in the late 1970's (48). Complaints have also been made about the complex administrative procedures involved in the calculation and collection of these taxes. In particular it was pointed out that the procedure for claiming tax reliefs and exemptions was very inflexible and ineffective.

The earliest attempts made to remedy the situation and reform enterprise relationships with the tax authorities go back to 1978 and 1979 when a series of measures was introduced in favour of the public enterprises. These consist of the following (49):

- 1 The newly installed production units were granted exemption from paying turnover tax (TAIC) and the lump-sum tax (TF) during the first five years of operation. At the same time the rate of the TF was brought down from 15 per cent in mid-1970 to 4 per cent in 1979 and 6 per cent in 1985 for old production units.
- 2 The elimination of the TUGP tax charged on imports of equipment and machinery intended for investment purposes and the reduction of the import duty to only 3 per cent.
- 3 A new tax system was introduced in 1979 whereby enterprises were combined in one single tax called CUGO (Contribution Unique Globale Obligatoire) (50).

In fact these measures did not question the principle of subjecting public enterprises to the same tax burdens imposed on the private firms. They were rather designed to lift some of the tax burden on the production units during their early years of operations. It has been observed that most new plants could not be installed on schedule and therefore needed longer periods before they came to

operate at full capacity. The older and well established production units did not benefit from these special tax reliefs.

It seems that the 1977 and 1979 tax changes had little positive impact on the finances of enterprises and production units since, three years later, CRFE was still calling for the abolition of all the regulations and procedures leading to double taxation and for the simplification of the tax relief and exemption procedures.

As far as the taxes relating to current operations are concerned, the CRFE urged the modification of the Algerian existing system so as to:

- alleviate the tax burden on public enterprises
- to allow them to generate positive cash flows
- to give incentive to profit making

These objectives, however, were to be achieved without 'endangering' the revenues to the Treasury (51). Again, three years later, the Five-Year Plan (1985-1989) called for the introduction of tax changes "to allow public enterprises to make profits", which is a precondition for promoting decentralised investments and management responsibility, but also "to provide the state budget with adequate revenues" (52). This ambiguous situation suggests that the Algerian authorities are concerned about this question but, at the same time, that the problem is still unsettled.

## 5 CONCLUSION

The reforms of public enterprises' internal structures have been accompanied by a reorganisation of their finances. Each public enterprise had to go through a process of financial rehabilitation. The stated aim was to redress their ailing finances and to endow the new firms with sound financial structures. The Algerian authorities



are hoping to end budget subsidies to enterprises, to liquidate bank overdrafts and to separate enterprise finances from those of the state. The reorganisation of public enterprises is also part of an overall strategy aiming at passing to a new stage of economic growth based mainly on more rational and intensive use of resources. According to this conception, the main tasks and functions assigned to public enterprises have been significantly altered. The 1980 economic reforms want to make the public enterprise a source for the generation of economic surpluses. It is not only expected to generate funds to maintain its steady growth but also to contribute to accumulation at the national level.

To achieve these objectives several measures have been introduced. A first set of measures has been the consolidation of enterprise finances through the injection of more funds into the new enterprises, the liquidation of the accumulated bank overdrafts and the settlement of inter-enterprise debts. The second set of measures includes the reactivation of some economic and financial levers. Thus, the reform programme enacted a new system of interest charges on bank loans and for the financing of small investments, set new pricing procedures and put forward proposals for reforming the tax system.

Despite the central planners' emphasis on decentralised management initiative and enterprise autonomy, the reform proposals and in particular those pertaining to the credit, price and self-financing policies, had not been implemented in 1986.

The reason for this is mainly due to the fact that the preconditions for the proper functioning of the economic and financial regulations have not been met. In fact, the reforms did not restructure the environment in which the public enterprise operates. But as Chapter Eleven will show, these measures in fact created more

obstacles to a genuine decentralisation.

## Footnotes to Chapter Ten

- 1 Ministry of Planning "Rapport Général du Plan Quinquennal 1980-1984", 1980, p 446.
- 2 Ibid, p 448.
- 3 The 1980 reforms also introduced new regulations concerning private investment. Sectors of the economy which had previously been the reserved domain of public sector enterprises were opened to private firms (industry, agriculture, tourism etc).
- 4 The Commission Ad-Hoc de Restructuration Financière des Entreprises, or (CRFE),. "Cadres, Critères, Canevas de la Restructuration Financière des Entreprises", 1981, p 1.
- 5 El-Moudjahid, "La Restructuration Financière des Entreprises: Une Opération Stratégiques et Vitale", October 1, 1984, p 5.
- 6 Ibid. p5.
- 7 The Commission Ad-Hoc, op cit, p 13.
- 8 Ministry of Planning, op cit, p 446.
- 9 The Commission Ad-Hoc, op cit, p 15
- 10 Ibid, p 8.
- 11 The Ministry of Planning, op cit, p 500.
- 12 The Commission Ad-Hoc, op cit, p 26.
- 13 Ministry of Finance, the Budget for 1983, December 1982.
- 14 Ibid. Article 7.
- 15 The Commission Ad-Hoc , op cit, p 42.
- 16 El-Moudjahid, January 17, 1983, p 3.
- 17 El-Moudjahid, "Restructuration des Entreprises: Comment répartir le Patrimoine?", November 25, 1984, p 7.
- 18 El-Moudjahid, "Restructuration des Entreprises: Passer au Palier Supérieur", June 16, 1984, p 3.
- 19 The Ad-Hoc Commission, op cit, p 36.
- 20 Ibid, p 36.
- 21 Ministry of Planning. "Deuxième Plan Quinquennal 1985-1989. Rapport Général", 1985, p 157.
- 22 El-Moudjahid, May 4, 1982, p 4.

- 23 Ministry of Planning, "Plan Annuel 1983: Grandes Orientations et Equilibres Généreaux de l'Economie". 1983, p.94.
- 24 Ministry of Planning, (1980), op cit, p 515.
- 25 Ministry of Planning, (1983), op cit, p 94.
- 26 Ministry of Planning, (1985), op cit, p 157.
- 27 Ibid, p 158.
- 28 Ministry of Planning, (1983), op cit, p 95. See also Révolution Africaine, February 28-3, 1983, for a detailed list of the products involved.
- 29 Ministry of Planning, (1985), op cit, p 157.
- 30 The Commission Ad-Hoc, op cit, pp 52-56.
- 31 Ministry of Planning (1980), op cit, pp 501-505.
- 32 The Ministry of Planning, (1985), op cit, p 160.
- 33 El-Moudjahid, "Les Banques au secours de la Croissance Economique", March 13, 1983, p 3.
- 34 Ibid, p 3.
- 35 Ministry of Planning, "L'Orientation Général du Développement", May 1980.
- 36 Bouras, A, "Banques: Le Retour a l'Orthodoxie Financière" in Actualité-Economie, July 1986, p 44.
- 37 Ministry of Planning, (1985), op cit, p 161.
- 38 Ibid, p 148.
- 39 The Ad-Hoc Commission, op cit, p 56.
- 40 FLN, Commission Ad-Hoc chargée de la Restructuration de Entreprises . Rapport Général, April 1980, p 21.
- 41 Feiwel, G.R., "The Economics of a Socialist Enterprise: A Case Study of The Polish Firm". Frederick A, Praeger Publishers, New York, 1965, p 185.
- 42 The preservation of the principle of centralising all enterprise financial resources in one single bank account after the reforms shows that the public enterprise is still subordinated to the banking system.
- 43 See the Bill presented by the National Commission for the Socialist Management (CNGSE) in 1975 dealing with the distribution of profits in socialist enterprises.
- 44 See Chapter Eleven for more details.

- 45 Ministry of Planning, (1985), op cit, p 160.
- 46 El-Moudjahid, June 6, 1984, op cit, p 3.
- 47 The Ad-Hoc Commission, op cit, pp 38-39.
- 48 Belaiboud, M, "Gestion Stratégique de l'Entreprise Publique Algérienne", Office des Publications Universitaires, Algiers, 1985, p 96.
- 49 Ministry of Finance. Budgets for 1978 and 1979.  
TAIC (Taxe sur l'Activité Industrielle et Commerciale)  
TF (Taxe Forfaitaire)  
TUGP (Taxe Unique Globale sur la Production)
- 50 The Ministry of Finance attempted in 1977 to combine all taxes paid by enterprises in one single comprehensive tax called the 'Contribution Unique Globale Obligatoire'. The aim was to reduce the time and costs involved in the calculation and collection of several taxes.
- 51 Ad-Hoc Commission, op cit, p 39.
- 52 Ministry of Planning, (1985), op cit, p 160.

## CHAPTER ELEVEN

### **THE CENTRALISATION MEASURES INTRODUCED BY THE 1980 ECONOMIC REFORM**

#### **1 INTRODUCTION**

The previous Chapter has shown that the 1980 reforms placed a heavy emphasis on decentralisation and the extensive use of financial criteria in decision-making in public industrial enterprises. The rationalisation of enterprise structures, the financial rehabilitation scheme and the greater use of indirect economic and financial levers are an illustration of this emphasis and of the wish of the Algerian authorities to substitute the profit motive and other economic incentives for administrative directives. At the same time, there are several provisions in the reform programme, and certain measures actually implemented in subsequent years, which show that the Algerian authority may be moving in quite the opposite direction, that is in the direction of greater centralisation.

Unlike some of the economic reforms carried out in Eastern Europe, notably in Hungary and Yugoslavia, where directive planning at the enterprise level was abolished altogether, the Algerian reforms placed a heavy emphasis on increasing the scope of plan directives. The Five-Year Plan (1980-1984) firmly stated that "the national plan is the only framework within which the development actions and the economic policies related to them are elaborated and carried out" (1). The central planning office, which up to 1979, had the political status of a state secretary was elevated to a Ministry and given large decision and control powers over the other sectoral and functional ministries. It now stands at the top of the Algerian economic system.

The 1980 economic reforms called also for the reinforcement of

central planners' control over the economy and particularly for the insertion of the public enterprises activities into the planning system. Another important innovation introduced by the reforms was the introduction of formalised planning structures, procedures and detailed plan indicators at all levels of the planning hierarchy.

These measures which were aimed at enhancing central control over the economy through direct instruments (ie. plans, plan indicators) suggest that the 1980 economic leaders were more concerned to correct the structural imbalances in the economy rather than to improve the micro-economic efficiency of the public enterprises. This is a continuing manifestation of the conservative illusion that the national economy can be managed as though it were a large firm; and its sub-units as bodies strictly obeying central orders and instructions.

In fact, the public enterprise has become, since 1980, tightly integrated into a complex administrative machinery which reserves the right to define its objectives and control its operations and resources. This section will examine some of these institutional measures and show how they restrict enterprise autonomy and impede the achievement of the objectives sought by the reorganisation of public enterprises. Four decision making areas will be investigated:

- 1 Planning of production activities.
- 2 Planning of enterprise investment.
- 3 Planning of enterprise imports.
- 4 Regulation of wages and incentives.

## 2 PLANNING OF PRODUCTION ACTIVITIES

### 2.1 The Objectives of the Reform

It may be recalled from Chapter Six that, prior to 1980 there was no planning of production activities above the level of the enterprise.

Decisions relating to the choice of the product mix, sources of supply and sales policies were made by managements of enterprises through direct horizontal links with suppliers and buyers. Attempts had been made in the 1970's to regulate and control enterprise production activities through a system of 'enterprise plans'. According to this procedure, major enterprise decisions had to be negotiated with, and approved by, the central administration before they were actually implemented. Despite the cumbersome and detailed a priori controls and checks on their production decision, several distortions and deficiencies resulted:

- under utilisation of production capacity.
- excessive operating costs and high operating deficits.
- holding of large stocks of materials, spare parts and hoarding of labour.
- expansion of output through the introduction of new capacity rather than through a fuller and more efficient use of existing productive capacity.
- stock-piling of unsaleable output due to non-conformity with consumer or user demand and to poor quality.
- compartmentalisation of Algerian industry due to lack of inter-enterprise cooperation and subcontracting.

Central planners effectively lost control over production and supply operations in the domestic market. The distortions listed above were the product of the deficiencies in the management mechanisms used to regulate decision-making in the public enterprises. In particular, they were the result of the deficient success indicator system applied to the enterprises. The market was eroded and distorted because it did not produce the results desired by ideologists. However, nothing has replaced it since planning at enterprise level was recognised to



have been a dismal failure (2). Under these circumstances the central planners were unable to bring pressure on enterprise managers to operate efficiently and to pursue policies which were optimal from the national standpoint. Advocates of a stronger role for central planning and control often argued that the inability of public enterprises to construct consistent plans was partly due to the absence of production and supply planning at a national level. Without this, they maintained, public enterprises could not produce coherent production plans.

It is against this background that the 1980 reforms called for the reinforcement of planning of production activities within public enterprises and for the incorporation of their plans into the national economic plan. The Five-Year Plan (1980-1985) fixed several objectives for the planning of production (3).

The first of these was to bring enterprise operations under greater central control. The aim was to force enterprise managers to construct more coherent and tighter plans which would go beyond the usual practice of fixing production targets with no reckoning of the means and measures necessary for their implementation. The production plan was to become the lynchpin of the enterprise plan; the other facets of the plan, ie. investment, supplies, financial resources were to be closely linked with the production targets.

Secondly, the central planners wish to construct appropriate plan targets for each enterprise which, once negotiated with and approved by the central authorities, would be implemented by the enterprise and become the basis for assessing its performance. The wages and bonuses earned by workers and employees were to be determined on the basis of the degree of fulfilment of these plan targets.

In addition, the national economic plan would fix on an annual basis the operations to be carried out by enterprises and the resources

required for their implementation. The national economic plan would determine the order of priorities in meeting the 'needs' of the population (ie. product-mix, goods to be imported). In addition to the above mentioned functions, the production plans and the supply programmes built into them were to be used as instruments for consolidating inter-enterprise cooperation and local subcontracting.

The final objective was to improve the quality of national plans. The articulation of the enterprise plan with the national economic plan was intended to ensure the continuous flow of information to central planners necessary for the direction of the national economy.

It is clear from this brief outline of the objectives fixed for production planning that the central planners intend to get directly involved in production and supply decisions. Indeed, several measures designed to strengthen production planning have been introduced by the Ministry of Planning since 1980. Thus, the Circular No 107/CAB/1980 introduced the system of production plans in industry. It set out the basic plan indices to be used for the evaluation of management performance in public sector enterprises. The circulars for 1982, 1983 and 1984 plans fixed the procedures, timetables and the detail contents of the production plans. They defined the statute of the production plan and the role and function of the ministries in the planning, coordination and control processes.

The incorporation of the productive activities of enterprises into national planning processes has serious implications for enterprise independence and its right of decision making. It runs counter to the stated aim of giving large decision making powers to enterprises and making them accountable for their financial results. A close examination of the planning processes involved and the contents of the production plans as they were operated in the early 1980s show

that public enterprises have become less and less autonomous in the running of their production operations.

It should be noted that the planning of production is still decentralised, that is, the central planners are not directly involved in the detailed physical distribution of material inputs to the public enterprise to achieve their planned targets. Attempts have been made, however, since 1982 to construct balances for a small range of products of significant importance to the national economy (steel products; construction materials; basic food stuffs). What is new in the 1980s regulations, however, is that in constructing their production plans, the public enterprises and the production units are required to work out in detail the means necessary for the achievement of planned production targets one year in advance. The various central administrations and control agencies are expected to help them in constructing consistent plans.

## 2.2 The Construction of the Production Plan

The planning hierarchy comprises four distinct levels: the Ministry of Planning, the sectoral ministry, the enterprise and the production unit (4). In the early 1980s the time and sequence of the annual planning process were as follows. In the first phase, the Ministry of Planning fixes in the early spring of the year preceding the period of the plan the rates of growth for the major branches of industry and the output targets for a small range of products. These targets are then passed on to the sectoral ministries which in turn disaggregate them into more specific objectives for enterprises. On the basis of these directives, the general management of the enterprise issues instructions about the product mix to be produced by the component production units over the next year. The task of the production units is to implement these directives.

In the second phase, the operating unit initiates the process by establishing the supply plan in the form of requests for specific quantities of resources. The responsibility for balancing inputs and outputs lies with the central management of the enterprise. The general office will attempt to balance and integrate the production, financial, labour, supply and other elements of the plan into a coherent whole. On the basis of the input-output balances of the production units and the supply requests addressed to it by the other public sector enterprises and private firms, the general office of the enterprise works out a material balance for the most important products which fall within the scope of the enterprises. It must draw up an import programme which will be submitted to the Ministry of Trade for scrutiny and approval. These output and input plans are then discussed and amended as necessary by the sponsoring sectoral ministry. These plans are then aggregated by the ministries which must represent them to the Ministry of Planning by mid-September. There may well be further interactions of the plan, when the Ministry of Planning receiving the aggregate output-input requirements of enterprises finds that the overall macro-balance of resources is likely to meet bottlenecks, shortages or if there are inconsistencies. When a final draft of the plan is arrived at and approved by the Government, the implementation of these plans by the enterprise becomes compulsory.

### 2.3 The Contents of the Production Plan

The production plan is the central part of the annual plan of the enterprise which normally defines, limits and determines its actual operation. The layout of the production plan, its main sub-plans and the various indices related to them are constructed by the Ministry of Planning and addressed to all plan executants early in the year. The

production plan has become since 1982, a detailed and complex document which is scores of pages in length. Broadly speaking, the production plan fixes the targets to be achieved by enterprises and production units in the coming year and determines the financial, supply, labour and investment resources necessary to achieved them. Table 1 represents a simplified structure of an enterprise plan.

The operations to be carried out are formulated in terms of plan targets of which the output target is the most important. Output indices, which may be output-mix, quantity in physical terms; production capacity in tons; metres, are used as a basis for planning labour and wages and for working out plans for supplies and financial resources. These sub-plans are also expressed as indices each covering a particular aspect of the enterprise plan. The plan targets are constructed by enterprises for a period of three years. Thus, the output indices, for instance, include last year's achieved output level; the targeted output for the current year and the level to be achieved over the next year. This applies to all other targets and variables of the plan.

The plan targets are therefore the basic information carriers used by the central planners to direct plan executants towards the achievement of given ends. They also serve as information carriers from the lower echelons of planning to the higher levels of planning. These indices are also important for control functions since they will be referred to by central supervisory bodies in evaluating the work of the enterprise during the implementation of the plan. In theory, all the plan targets enumerated in the set of yearly plan directives are obligatory. In practice, however, the way in which they are treated varies and their legal character is far from clear. The most important targets are output; labour productivity; rates of capacity

utilisation (5). The characteristic feature of the enterprise plan is the priority given to its production targets.

Table 1     A simplified structure of an enterprise plan

---

I <u>Production Plan</u>	Main production in physical terms Marketed production in current prices Production in stock in physical terms Exports Domestic sales Subcontracting Production capacity and its utilisation
II <u>Supply Plan</u>	Raw material requirements Imported goods broken down to final destinations Stocks of inputs and semi-finished goods
III <u>Manpower &amp; Wages Plan</u>	No of personnel employed in head office & in operating units Proportion of productive workers in total work force Size of workforce by skill-categories Wage fund together with wages by main skill categories Deficit in skilled labour: head office, units Breakdown of wages according to minimum wage ceilings No of women employed Size of foreign personnel employed Increases in labour productivity Classification of qualifications and skills of labour force
IV <u>Financing Plan</u>	Working capital/broken down into monthly and quarterly Bank credits or overdrafts Inventory norms Debts and liability
V <u>Investment Plan</u>	Capital construction/under construction Introduction of new production capacity Minor investments to improve production Repairs and retooling ... etc.
VI <u>Cost/Profit Plan</u>	Costs of production Cost per unit of a range of products Turnover Valued added Net operating result

---

Source:     A summary constructed on the basis of the 1984 Annual Plan of the National Steel Enterprise (ENS). August 1984.

The above outline of the mechanisms of the system and how it works are very revealing in so far as the degree of autonomy of public enterprises is concerned.

First, public enterprises' production operations are inserted into the national economic plan. The contents of the enterprise plan are determined by the latter. Since the reform, the planning directives emanating from higher administration levels have become very detailed. This severely restricts the enterprises' freedom of choice. The planning of the resources to be secured for the implementation of the planned production targets is intended to serve as a means of rationalising and controlling the flow of inputs to enterprises. The information about resources at their disposal is usually supplemented by a list of specific planning tasks. The central planners do not only determine part of the product-mix to be produced by the enterprise but also exercise tight control over its wage bill and through the banks, its utilisation of the financial resources.

Secondly, it is not clear from the reform documents how to reconcile the broadening of the scope of plan directives with the use of economic parameters and incentives and the increased accountability of enterprises which are the basic premises of the reforms (6). In fact, it is generally the case that the plan directives clash with incentives. The need for plan directives is a recognition of the fact that the economic parameters do not induce enterprises and production units to observe the central planners preferences. If they did -plan directives would not be needed. The plan directives do not, however, eliminate the contradiction between the interests of enterprises and the central planners' preferences; they merely enforce the latter at the expense of the former. The fact that all enterprise decisions have to be discussed in advance and approved by the central authorities

restricts the enterprise autonomy.

In spite of the short time which has elapsed since this type of planning was introduced, there is already evidence that the planning of production as described above has encountered fundamental difficulties. It has indeed been officially recognised that most public enterprises were unable to construct consistent production plans (7).

The weakest aspect of the planning process is the inadequacy of the supply system. The supply plans of the production units and enterprises are constructed on the basis of direct contracts with public and private suppliers in the local market and/or on the basis of the import quotas granted to them by the Ministry of Trade. A basic weakness in the Algerian supply system is the lack of balance between the quantities supplied and demanded in the domestic market. The most familiar problem of horizontal coordination has been the chronic failure of enterprises under one ministry to meet contractual supply obligations to enterprises under another ministry. This problem of coordination becomes even more complex when the public enterprise depends for the large bulk of its supplies on private sector firms. There are no penalties for breaches of the supply contracts such as fines for non-delivery; delays; breaches of product-mix or quality. The same is true for enterprise relationships with the Ministry of Trade, which, as a result of balance of payment constraints, may reduce unilaterally its import quota. These deficiencies have a chain reaction effect on enterprises' costs and on their ability to fulfil their planned targets.

The central administrations also contribute to the imbalances in the plans. They may issue late plans; order unauthorised production and change production plans without altering the plan indicators; particularly for supply. The process of working out consistent and



integrated enterprise plans, therefore, involves compromises to resolve numerous conflicts of interest at each level of the hierarchy. The crucial question is how to make the various central administrations which regulate and control enterprise resources (imports, finances, investments) responsible for the impact of their interventions. (8).

There is also ample evidence that the particular character of certain indicators continue create distortions and deviations from plan targets. Planning and bonus indicators which are set mostly in physical terms have failed to stimulate production to satisfy consumer demand or to encourage technical innovation or risk. Low quality output; inefficiencies in product-mixes and the use of labour and materials and indifference to costs have also resulted from this system of physical planning (9).

The design of information systems is directed essentially towards external reporting to supervisors. The basic sub-plans of the enterprise plan are elaborated in a form which is completely useless for enterprise management. The plan for material balances, for example, is elaborated for a few 'planned' inputs only and at the level of aggregation at which they appear on the yearly list of centrally planned supplies. What the enterprise requires is a purchasing plan which covers all its inputs - centrally planned or not - and disaggregates it to the level of individual specifications. As a result, the supply plan is absolutely useless for the enterprise which elaborates it. This perhaps explains why plan executants view the production plan more as a medium for the transmission of data to the higher supervisory bodies rather than as a basic management document to be used for decision-making purposes within enterprises (10). Moreover, enterprise managers have often complained about the massive quantities of data which they have to prepare and transmit at regular

intervals (monthly; quarterly; six monthly and annual reports and control figures) to the various central control agencies. The heavy reporting requirements cause a considerable economic disadvantage to the enterprise since it will be obliged to recruit additional administrative personnel to do the job of reporting without noticeable benefits accruing to the enterprise from this activity (11).

Finally, the attempts aimed at reinforcing planning of production has not solved the problems involved in enterprise relationships with the banks. These are still characterised by severe tensions and conflict. The reason is that public enterprises continue to rely on bank overdrafts for the financing of their production operations. Fundamentally, there are two reasons for this. The first is that under a system of planning in physical terms, priority is given to production targets. Very frequently enterprise financial plans are elaborated when all other parts of the enterprise plan have been already decided. The balances of revenue and expenditure represent a financial summary of other parts of enterprise plans elaborated earlier. Under these conditions enterprises financial planning has a purely technical character and does not constitute 'planning' *sensu stricto*. Moreover, the determination of the financial results of production targets cannot at present be used as a basis for requesting changes in physical terms. Secondly, in granting short and medium loans to enterprises, the primary banks refer to their financial plans. They must make sure that the requests for funds are kept well within the limits prescribed by the plan. However, it often happens that the actual financial needs exceed the estimate. The estimates are usually wide approximations. The degree of uncertainty involved in forecasting the financial flows one year in advance is very high and is a major obstacle to a successful articulation of the various facets of

the plan (12). It is these discrepancies between physical and financial flows which are at the root of the frictions and conflicts between the banks and enterprises (13).

### 3 PLANNING OF ENTERPRISE INVESTMENTS

The Five-Year Plan (1980-1984) introduced several interesting changes in the system of planning and control of public enterprise investments. These changes were all designed to deal with the economic distortions and financial imbalances which emerged during the pre-reform period. The declared objective in this area was to bring investment costs under control with a view of reducing them and to shorten the construction time of investment projects. The changes brought about can be summarised under five heads.

The first point to note is the relative decline in the investment effort. The propensity to invest, i.e. is the ratio of investment expenditures to gross national product, fell from 48.8 per cent in 1979 to 34.5 per cent in 1981 and 38.5 per cent in 1982. The share of

Table 2 Share of industry in public sector investment expenditures (1979-1984) in billion AD

	Total public sector & investment expenditures	Investment expenditures in industry	Share of industry in (%)
1979	55.265	34.628	63%
1980	54.058	28.463	53%
1981	57.585	22.827	40%
1982	70.682	21.705	29%
1983	107.787	35.000	32%
1984	101.421	33.600	33%

Source: Hakiki, F "Déterminants et lieux de manifestation du pouvoir monétaire en Algérie 1979-1984". In les Cahiers du CREA, No 6, 1986, p 20

investment by public industrial enterprises fell particularly sharply from 63 per cent in 1979 to about 33 per cent in 1984.

This relative fall of investments in industry is in line with the economic directives of the Five Year Plan (1980-1984) and the shift in emphasis since 1980 from industry to other sectors of the economy which had been lagging behind for many years such as housing; agriculture; basic infrastructure; irrigation and dam construction.

A second point to note is that the directives of the Five-Year Plan (1980-1984) also stressed the need for a better preparation of investment projects before they are actually undertaken. It called for a greater planning discipline and warned against any future 'fuite en avant' through the launching of investment programmes which were not urgently needed, ill-prepared or carried out only at a very high cost. It may be recalled that prior to the reform the planning of investments consisted in the main of the centralised allocation of investment funds among enterprises. The actual implementation of these projects fell within the competence of the public enterprises themselves subject of course to central regulations concerning the allocations of foreign exchange; imports and finance. However, the intensification of the investment effort and the bureaucratic competition for centralised funds create severe distortions and shortages in the supply of all types of inputs: construction materials, machinery and equipment, qualified manpower etc. This in return had a negative impact on the rate of implementing investment projects resulting in excessive investment costs, long delays and the absence of clearly defined responsibilities for the installation of equipment.

The reform proposals aimed to restore the central planners' control over enterprise investments. All investment decisions must now involve consideration of the conditions of their implementation. The

objective is to bring down investment costs and reduce the construction periods. No investment can be carried out until all the resourcing conditions necessary for its implementation are met. Better project preparation will involve ensuring that the location of the new project is adequate in terms of availability and energy supplies, labour supply, infrastructure and road links. This requires coordination with regional and local authorities.

The Algerian authorities are also hoping to improve the quality of costing and rate-of-return calculations by means of more detailed feasibility studies and more accurate financing plans.

Moreover, with balance of payments considerations in mind, the central planners are now more concerned about the need for inter-sectoral coordination in the elaboration and execution of investment projects as a means of intensifying local subcontracting and material resourcing. The sectoral ministries are now actively involved in this coordination. This is established as a necessary accompaniment to the restructuring of industry.

It has also been proposed that the financial and banking institutions should be involved in the preparation of investment decisions so that they can exercise more effectively their control functions during the installation of the investment project (14).

In short, the preparation of investment projects has now become a crucial stage in the planning process. The expenses incurred in this operation are financed from the state budget. The stated aim of this new procedure is to introduce more discipline in the planning of investment with approval of projects taking place only after all the necessary preparations for their launching have been satisfactorily completed.

A third element in the 1980 reforms was the transfer of some of

the decision making powers from the national budgetary authorities to the primary banks. These concern the financing of replacement investment , retooling and minor investments. These are now to be financed by the primary banks from their own resources and at their risk. This aspect of investment planning has been dealt with in a previous section and need not be repeated here. It is sufficient to note that the primary banks are expected to be actively involved in the appraisal and selection of these categories of investment projects on the basis of national economic and financial criteria.

Fourthly, it has been decided that the decision whether to invest, which formerly rested with the Ministry of Planning and the decision to finance, which rested with the Ministry of Finance, should now be taken simultaneously at the time when the investment project is approved by the Ministry of Planning (15). It is deemed that this would speed up the decision making process. It has also been suggested that the participation of the banks in the evaluation and financing of projects would have a positive effect since they would have a vested interest in the construction of optimal financing plans for these projects.

A fifth and last change concerns the procedure for adjusting the costs of an investment project under construction to allow for inflation. To prevent an investment project travelling once again along the various stages involved in the planning of investments, the new regulations introduced a simpler procedure for reviewing the initial costs. The changes in the initial cost structure of a project due to increases in wages; prices of raw materials; machinery and other related services are taken care of directly by the Algerian Bank for Development (BAD), without the prior approval of the Ministry of Planning.

Attention has so far been focused only on the changes announced in the various reform documents. It is now necessary to consider two issues. Do these reforms represent a major departure from former planning practices? How relevant are these modifications to the autonomy promised to enterprise managers? Are these changes in line with the decentralisation drives and the search for the introduction of financial discipline into enterprise decision-making? First, all investment projects will continue to be decided within the framework of the national economic plan, including those so-called 'decentralised' investments. The national economic plan sets credit quotas separately for each branch of industry. As noted in Chapter Ten, the centralised system of planning investments remained unaltered. It is deemed that investment decisions (rates of growth, the size, type and location of project, the time and conditions of installation) lie outside the competence of socialist enterprises. The enterprises may be required to make investment requests, but the major decisions still have to be taken within a wider organisational context. Public enterprises are required (by law) to carry out these investments (16).

Secondly, the planning hierarchy, procedures and timetables remain unchanged. The investment decisions are still made within the framework of a complex administrative structure on the basis of civil service rules. Although the public enterprises participate in the elaboration of investment plans, the decision whether to invest; the financing scheme and the mode of realising these investments are all made within the central administration (17). Thus, in making an investment request, including these so called 'decentralised' investments, public enterprises must consult several central agencies: the relevant sectoral ministry (for technical aspects of the project), the Ministry of Planning (cost analysis, appraisal, approval and

inclusion in economic plans) and finally the primary bank (signature of the credit agreement) (18).

At the implementation phase, the public enterprise must wait until a series of administrative procedures is carried out: the approval of the Central (or Enterprise) Subcontracting Commission; the AGI or the foreign exchange allowance procedure; negotiation with foreign contractors of the financing conditions; the approval of the construction contract by the BAD; the authorisation granted by the primary bank to transfer funds abroad in payment of imported machinery ... etc (19).

This list of the various administrative procedures and the administrative bodies involved in the elaboration and execution of investment decisions suggest that public enterprises are still inserted into a complex system of macro-management (which is run on the basis of administrative decision rules) in which the state speaks with many voices. The central problem here is how to reconcile such a system of planning and control with the aim sought by the state to change the style of management within public enterprises by introducing financial discipline in their decisions and to make them responsible for their financial results.

The multiplicity of the various forms of checks, approvals, quotas, visas, allocation of funds on routine basis, direct orders and instructions are not conducive to enterprise autonomy and management initiative. They result in long delays in the implementation of investment projects which in turn result in higher costs and lower profit margins. To illustrate this point, it may be sufficient to note that a planned investment proposal takes between six and sixteen months before it is actually approved by the Ministry of Planning; and there are further delays involved in the application for an import quota



(AGI) (20).

Thirdly, the proposed changes make no concession to public industrial enterprises in the matter of investment decisions. They consist in fact of a transfer of decision making authority from one central agency to another and to the banks rather than to public enterprises (21). One cannot see, for instance, how the large powers promised to the banking system in the appraisal, financing and conduct of investments is conducive to enterprise autonomy. True, the reform blue-print provided for the decentralisation of some investments and called for the encouragement of self-financing in public enterprises. However, and up to 1986 all investments, including those which are financed from decentralised sources, remain subject to detailed central planning and control. The banking system is still fundamentally engaged in extending credits for specific expenditure. This has meant that the enterprises cannot dispose freely of the funds designated for decentralised investments.

The enterprise investment activity is rigourously controlled by the Ministry of Planning, the BAD and the primary bank. Not only are the financial aspects of the investment project scrutinised, but also the adherence to the investment limits prescribed by the plan; the types of investments and their conformity to regulations. Due to the persisting excess of actual costs over the estimates, great stress has been laid on the control of investment costs by the bank. During the course of the investment project the primary bank must verify that the payments are in accordance with the estimates. Just as before, this bank control has proved to be ineffective in preventing the excess of the actual costs over the estimates. In fact, it has resulted in the development of serious conflicts between the enterprise and banks.

Fourthly, the reform programme has also called for an

improvement in the preparation of investment projects as a means not only of reducing the construction delays and costs but also of achieving greater inter-sectoral coordination. While it is true that the success of an investment project depends very much on how well it has been worked out and prepared, this requirement may lead in the Algerian setting, to even longer construction delays and higher investment costs. Thus the decision, for instance, to make the primary bank participate in the evaluation and preparation of a new industrial project may improve its control over the investment project during the course of its implementation. But it may also mean that an additional link is added to the already heavy control machinery which the enterprise has to consult. This constraint applies also to the coordination functions entrusted to the various central agencies (imports, contracts with construction firms etc.).

It may be concluded that the 1980 reforms did not question the principle of centralisation of investment decisions. The distinction made between 'decentralised' and 'centralised' investment is superficial and useless in so far as enterprise's right of decision is concerned since all investments have to be planned in detail and approved by central authorities. The reform proposals do not, in short, introduce significant changes in the former system of investment planning and control.

#### 4 PLANNING AND CONTROL OF ENTERPRISE IMPORTS

It has been shown in Chapter Five that the administrative system of planning and controlling public enterprise imports produced serious economic distortions. In particular, it failed to deter public enterprises from pursuing policies which are non-optimal from the national standpoint. At the macro-economic level, it increased the

country's dependency on external markets, and led to external debt problems, and a lack of internal subcontracting and national resourcing. At the micro-economic level, the cumbersome and deady-slow procedures produced delays in the installation of plant and machinery, high investment costs and frequent work stoppages due to shortages of raw materials and spare parts. Moreover, faced with supply uncertainties and chronic shortages, enterprise managers have tended to over bid for all sorts of goods in short supply. These practises in turn distorted their finances and inflated their working capital needs.

The response of the Algerian planners to these problems, despite their emphasis on alleviating the unnecessary bureaucratic procedures, has been to reinforce the system by the introduction of even tighter control devices and detailed planning procedures. Their prime target is to restore the foreign trade balance.

Two other constraints have provided the central authorities with further grounds for reinforcing central intervention in this strategic area: the increase in the number of public enterprises operating in foreign markets as a result of their reorganisation and the fall in oil prices in world markets. The abrupt fall in the oil price in 1985 has led to tighter and more rigorous handling of this external constraint; and the rise in the number of public enterprises has also meant that more central coordination is needed.

However, as with investment, the reform measures aiming to enhance the central authority's control over foreign trade operations through use of administrative methods may be inconsistent with one of the very basic aims underlying the restructuring of public enterprises, that is the search for higher operational efficiency and the introduction of financial discipline in their decision processes.

The reforms did not alter significantly the previous system of planning and control. The most salient features of the import planning system can be described as follows.

- 1 The state monopoly over imports was reasserted in 1978 (22). The 1986 National Charter also stated explicitly clear that the state monopoly over foreign trade transactions is a major instrument for regulating the economy.
- 2 The number of public enterprises endowed with a state monopoly over imports increased from about 30 in 1980 to 96 in 1984 as a result of their restructuring. The Decree No. 84-390, 1984, fixed the product groups attributed to each public industrial enterprise. As a rule, the import rights were granted to production enterprises. However, this right is shared with trade enterprises under the jurisdiction of the Ministry of Trade in the case of major consumer goods and some segments of the light industries. These products are still classified into two broad categories: list 'A' includes those products which can be imported only by the relevant enterprise, except in special cases. List 'B' includes those products which are under the authority of the relevant enterprises, but which it can delegate to other customer enterprises where they are necessary for their investment and production operations. It should be noted that the list 'B' was extended in the early 1980s. The objective was to make the import system more flexible by allowing public enterprises to obtain directly the imports necessary for their investment and production operations (23).
- 3 The principle of incorporating foreign trade into centralised planning and control was reasserted and legislated

for in 1983 (24). The overall import programme (PGI) is now elaborated within the framework of the national economic plan. This has meant that the volume and structure of imports are determined centrally in liaison with the investment, production and consumption priorities of the country. The allocation of foreign exchange quotas to various branches of industry is made on the basis of several considerations: balance of payment constraints, encouragement of local production and subcontracting, planned investment and production objectives, priorities centrally fixed for consumer goods, political considerations (e.g. trade arrangements with particular countries).

Enterprise imports are still planned one year in advance. The AGI procedure remains the basic method for the planning and control of enterprise imports. In making their import requests public enterprises are required to produce in detail their investment and production plans. Obviously the objective of linking enterprise imports to their planned objectives is intended to reduce and rationalise import operations. This marks a considerable departure from the previous practices where central administrations were involved only in setting limits on the allocations of foreign exchange to enterprises. The planning and control of imports has now become extremely complex with the reinforcement of annual planning at the enterprise level and the increase in the number of enterprises involved in foreign trade operations. The planning process can be broken down into two main stages: the elaboration and execution of import plans.

The planning process starts at the production unit level. In constructing their annual plans the units make an estimate of their procurement needs. These are then addressed to the 'monopoly

enterprise', that is the public enterprise which has a state monopoly over the imports of a particular product (or group of products). It in turn will see if it can meet the order from local sources, mainly from other producing units subordinate to it or from other subcontractors. If the products are not produced locally or are in short supply then it will include them in its annual import programme (AGI). The annual import plan is constructed on the basis of the various import requests made by the lower echelons of the planning system.

The items included in the AGI are classified under 3 types of products: intermediate goods, planned investments (equipment) and goods for final consumers or users. When these plans are completed and approved by the relevant sectoral ministries, they are transmitted to the Ministry of Trade. On the basis of these plans the National Import plan (PGI) is drawn up. Adjustments can be made to the import requests made by enterprises to take account of balance of payments constraints. This may involve further negotiations with enterprises and the amendment of production and investment targets until a final plan emerges. When a final import programme is arrived at and included in the national economic plan, it is disaggregated and individual import quotas are granted to the enterprises and the production units.

At the implementation stage, public enterprises are generally free to choose their foreign suppliers. Since the early 1980s attempts have been made to introduce some flexibility in the control exercised by banks. In particular the famous 1979 Directive No 1 was abolished (25). Despite these measures, however, the import operations, and in particular the procedures involved in the control of the supply contracts concluded by the importing enterprise are still very slow and cumbersome. Eight stages have to be gone through.

1 Invitation to tender published in local paper.

- 2 Processing and screening of tenders.
- 3 Negotiations with the chosen suppliers/subcontractors.
- 4 Examination and approval of the contract by the Enterprise Tender Committee (CME) (26).
- 5 Confirmation of the contract by the bank which authorises the enterprise to obtain credit and controls and makes the transfer of funds.
- 6 Submission of the contract to the Central Tender Committee (CCM) (27).
- 7 Arrangements made with the national shipping company (CNAN) for the transportation of the goods.
- 8 Control exercised by the customs authorities.

The above mentioned features of the import system indicate that broadly speaking the former system of planning imports remain unchanged. The new measures, if anything, have been designed to strengthen the central planners' control over import transactions rather than to give more independence to enterprise managements in import decisions. Prior to 1982, for instance, the supply contracts concluded by public enterprises with foreign firms were not examined by the CCM. With the fall in oil prices and the additional constraints on the balance of payments, imports are now not at all easy to obtain.

Viewed exclusively from the central planners standpoint, it may be argued that the tight control over imports and their rationing by administrative means have had some positive macro-economic effects. Central authorities have been able to bring down the country's propensity to import from 48 per cent in the second half of the 1970s down to 29 per cent in 1984 (28). They may have also helped the state to absorb, at least in part, some of the effects of the fall in oil prices on the national economy. But viewed from the enterprise's

viewpoint, the implications of these centralised measures are adverse. They have resulted in serious bottlenecks, severe shortages of materials and spare parts leading to disruption of production and excessive operating costs (29). Administrative planning and control of imports has proved particularly hard to reconcile with the basic aims underlying the reorganisation of these enterprises, mainly to rationalise their operations and to introduce discipline and more effective financial criteria into their decision-making.

First, the import decisions are made outside the public enterprise. The planning process has involved compromises to reconcile numerous conflicts at each level of the hierarchy. The officials at the Ministry of Trade and Ministry of Finance are usually concerned about balance of payments problems and therefore have a vested interest in keeping imports as low as possible. Their strategy has frequently been to extract the largest output possible from the enterprises and the production units with the least possible imports. The response of enterprises to the structural and decision-making problems of macro-management is a familiar one. Managers attempt to cope with an uncertain and risky environment by inflating their import requests and holding large inventories. Bureaucratic controls developed to prevent or to uncover managerial deviance have been traditionally weak, largely because these practices are a natural result of the regulation process itself.

The practice followed by central authorities of fixing foreign exchange quotas well below the levels requested by the enterprise has become widespread in recent years (30). Given their specific role and functions in the planning hierarchy, the central planning agencies (Ministry of Trade, Ministry of Finance) are simply not concerned with the impact which these cuts might have on the finances of public



enterprises. The central authorities reserve the right to make, in case of necessity, changes in the national import plan during the course of its implementation without any prior warning to enterprises. These emergency revisions may cause considerable financial and economic disadvantages to the public enterprises and production units. The latter cannot claim compensation for such disadvantages.

Secondly, the import procedures are complex and cumbersome resulting in long delays in the delivery of the required goods. For instance, it has been estimated that in the case of imports of plant and machinery the time periods involved range on average between 16 to 20 months (31). The excessive centralisation of foreign exchange funds, the dispersion of import decisions over a large number of central control agencies (Ministry of Trade, CMC, banks etc) together with the lack of coordination of their actions are responsible for the inflexibility of the import system and for the long delays in deliveries. In fact, faced with this maze of control procedures and agencies, the public enterprises 'responsible' for foreign trade operations are simply unable to plan and carry out effectively their import operations (32).

Thirdly, the cumbersome planning procedures and delivery schedules imposed on enterprises and the production units have serious consequences on their liquidity positions. The fact that imports are planned for one year only, and not for several years, has often meant in practice that supply contracts are concluded once a year. Supply deliveries are also made once or twice a year. From the production unit's viewpoint, the arrival of a whole order once a year creates serious storage and transportation problems. The implication of this is that the production units are forced into purchasing large stocks well in excess of their actual needs which are often spread evenly

over the year. This system also requires that the production units have considerable financial resources at their disposal to pay for a whole consignment before the goods are sold or transformed into saleable products. The production units cannot benefit from favourable credit terms offered by suppliers. It has also been reported that the production units are often asked to pay in advance for their supplies when they place their orders (33). The practice of holding large stocks is both economically and financially irrational. It is a waste of scarce resources which could be put to more productive uses. In financial terms, excessive stocks to which tie up considerable capital resources creates additional working capital needs, which in turn worsens the liquidity position of the production units. It can be argued, therefore, that viewed from the inflexible import planning system is contributing to economic waste and to the financial 'destruction' of the micro-economic units.

It may be concluded that as regards the import planning the 1980 economic reforms brought no advantages to public enterprises. Import decisions are still made outside the enterprise. Enterprise procurements are incorporated into a larger import system which is run on the basis of macro-economic considerations and administrative rules. The regulations and the a priori controls and checks on enterprise imports greatly restrict their operational autonomy. They create serious bottlenecks the effects of which are long delays in decision making, increases in costs and the removal of responsibility for imports from managers.

## 5 THE REGULATION OF WAGES AND INCENTIVES WITHIN PUBLIC ENTERPRISES

The reorganisation of public sector enterprises in Algeria has been followed by tightening state control over the employment and wage

decisions in these enterprises. The national salary grid, the work on which lasted several years (from 1978 to 1984), was finally implemented in 1985. As in Eastern European countries, employment, wages and incentives in all sections of the public sector are now under strict state control. Article 128 of the national salary grid, or SGT, makes it clear that wages and income policies must not be delegated to enterprises. They have become an instrument for the implementation of the economic plan. Wage increases are related to improvements in production and productivity levels. The prime target of the central authorities is to control inflation, reduce wage differentiation between the various sectors of the economy and consequently reduce the high level of worker mobility.

Three formal restrictions are placed on the hiring powers of the production units and enterprises. The first is quantitative setting a limit on the average number of full time workers and employees permitted during the year. The other two restrictions place limits on the ability of the production unit to attract labour. These consist of the wage and salary rates determined nationally for all jobs and the total wage fund available to the enterprise. Labour regulations leave the production units free to substitute one type of labour for another. They are not free, however, to increase total expenditures on labour in order to economise expenditure on material costs; nor are they free to increase total retained earnings as a reward for productivity improvements.

The maximum number of employees permitted is fixed in the annual plan of the enterprise and of the production units. Limits are set for major skill categories. The recruitment of new skilled personnel has become a serious constraint on enterprise management in recent years. Public enterprises and production units have come under serious

pressure following the reform to utilise fully and rationally labour resources and to cut down redundant workers. Regional labour committees have been installed to scrutinise and approve new recruitments, and to construct, in consultation with the personnel directorate of the relevant production unit, action plans for the redeployment of the redundant workers (34). The central authorities seem to be determined to deal with the problem of overmanning in public enterprises. A number of measures have been taken: transfers to other units, non-replacement of retired workers and reconversion of workforce (35).

The central authorities also set a limit on the total wage fund of the enterprise and the units. The various wage and salary rates are centrally fixed for each sector of the economy and the earnings for different jobs are kept in strict proportions to the national wage rates. An enterprise's earning structure is subject to supervision and approval by the central administration, and is bound by the wage fund established for the year in question. The wage fund in an enterprise or production unit is linked the planned increase in production and productivity levels (36).

These measures clearly reduce the freedom of managers to respond to labour market pressures for different labour skills by varying the composition of its labour force and the earnings for different grades. In order to stimulate more effort on the part of workers and employees, a new bonus scheme was introduced in 1980 in most public sector enterprises (37). The aim was to link the bonus payments to the degree of fulfilment of planned production and productivity targets. Two types of bonuses have been paid to workers in public enterprises since 1980: the first is paid to each worker for his individual effort (work-piece) and the second is a collective bonus calculated on the

basis of the degree of achievement of the planned production targets in a production unit. While the former varies between 0 and 10 percent of the worker's basic salary fund, the latter is much higher and may be as much as 30 percent of the total basic salaries paid to the collective of workers.

This bonus system has, however, failed to produce the expected results (38). The bonuses were often interpreted as standard additional payments to all workers, and consequently their value as incentives has been lost. The reasons for this failure are the absence of standard work norms, the difficulty of assessing the performance of the non-productive workers, (ie, maintenance and administrative staff) and calculating accurately the productivity gains.

The above discussion of the changes in the planning arrangements for production, investment, imports and wages indicates that, despite the reforms' promises to introduce a greater degree of decentralisation into the planning system and to foster greater initiative by enterprise managers, powerful centralising forces have in fact been strengthened. As a result, enterprises are now operating within an institutional environment where centrally imposed constraints are tighter than before. This clearly runs counter to the efforts to give more autonomy to enterprises and creates a fundamental and serious conflict, not to say confusion, in the whole reform package. This will now be examined in the final concluding chapter.

## Footnotes to Chapter Eleven

- 1 Ministry of Planning, "Plan Quinquennel (1980-1984)", 1980, p 427.
- 2 See Chapter Six.
- 3 Ministry of Planning, op cit, pp 474-479.
- 4 Ministry of Planning, "Organisation et Mise en oeuvre du Plan de Production", Circular no 107/CAB/1980.
- 5 Ministry of Planning. The Decree 81-185 dated May 1982, established the major bonus success indicators in public enterprises.
- 6 See Chapter 10. The Five Year Plan (1980-1985) also noted that "in general, the conditions of organisation and functioning of our economy must be directed in the future by indirect economic incentives and penalties at the level of the enterprise and the production units", op cit, p 478.
- 7 Ministry of Planning, "Plan de Production 1984", 1984, p 5.
- 8 It is often very difficult in practice to distinguish with any precision whether the worsening of the plan indices is due to the failure of enterprise management or to factors outside its competence.
- 9 Resolutions of the 4th National Conference on Development held in Algiers between December 20-22, 1986. In El-Moudjabid, December 23, 1986, p 5.
- 10 Ministry of Planning, "Plan de Production 1984", op cit, p 5.
- 11 Khelfaoui, H, "The Life of the Public Enterprise between Deceleration and Necessity", in Actualite-Economie (in Arabic), No 2, 1982.
- 12 Ministry of Planning, op cit, p 10.
- 13 Idjakirene, Ch, "Contribution de la Banque Nationale d'Algerie au Systeme Bancaire Algerien", in Cahiers des Sciences Sociales Universite de Annaba, No 2, 1985, pp 94-96.
- 14 Joint communication from the Ministry of Planning and the Ministry of Finance, "Mesures a Initier en 1981 Dans le Domaine de la Planification de l'Investissement", January 1981, p 29.
- 15 Ibid.
- 16 FLN, Commission Ad-Hoc chargee de la Restructuration des Entreprises, April 1980, p 50.
- 17 Khelfaoui, H, op cit.
- 18 See Chapter Four.

- 19 Dahmane, C, "Autonomie de l'entreprise: qui Trop Embrasse. Mal Etreint", in Actualité-Economie, April 1986.
- 20 Ibid.
- 21 Some writers even saw the reorganisation of the economy as a means of transferring decision-making power from public industrial enterprises to the state administration and banks. See for instance, Hakiki, F, "Les Déterminants et Lieux de Manifestation du Pouvoir Monétaire", in les Cahiers du CREAD, 1986, No 6, Algiers, p 23.
- 22 Law No 98-02, 1978 firmly stated that the state has an exclusive right over foreign trade operations. The nationalisation of foreign trade has meant that prior authorisation must be obtained from the state before purchasing from overseas markets.
- 23 Bouzidi, N, "Monopole: Entre l'Enveloppe Financière et l'Identification des Besoins", in Actualité-Economie, August 1986, p 42.
- 24 Decree No 83-142 concerning the implementation of the state monopoly over foreign trade.
- 25 Inter-Ministerial Circular dated February 14, 1981 concerning "Les Mesures d'Assouplissement Relative à la Gestion du Programme Générale d'Importation".
- 26 Commission des Marchés de l'Entreprise (CME).
- 27 Commission Centrale des Marchés (CCM).
- 28 Bouzidi, N, op cit, p 43.
- 29 Bendjoudi, Y, "L'Aspect Financier de l'Approvisionnement de l'Entreprise", in Actualité-Economie, August 1986, p 38.
- 30 Brahimi, B, "Monopole: Les Incidences sur les Activités", in Actualité-Economie, August 1986, pp 36-37.
- 31 Bounab, A, "Monopole: le Mirage de l'Efficacité", in Actualité-Economie, August 1986, p 34.
- 32 Ibid, pp 34-35.
- 33 Ibid, p 35.
- 34 Chikhi, S, "Le Travail en Usine", in Les Cahiers due CREA, No 4, Algiers, 1984, pp 30-35.
- 35 Ministry of Heavy Industries, Circulars No 3/CAB and No 113/CAB dated February 16, 1984.
- 36 Decree No 80-48 dated February 1980. Article 22 stipulates that "the increase in the size of the wage bill must not exceed under any circumstances the increase in the index of production."
- 37 Ibid.

38 El-Moudjahid, "SGT: le Rendement, sa Mésure et sa Rémunération,  
May 14, 1986, p 3.



## CHAPTER TWELVE

### **CONCLUSIONS**

The Algerian public enterprise, the backbone of the Algerian economy for more than fifteen years, has come under close scrutiny since 1980. For many years the public enterprise was considered to be an instrument for achieving the social and economic policies of the Algerian state. For many years also, little was known about the operation of the Algerian public enterprises. At a time when a rapid and turbulent policy of industrialisation and priority planning reigned supreme, the central planners paid little attention to the rational allocation of resources or to micro-economic processes and adjustments. The enterprises' efficiency and performance were measured essentially in terms of their ability to augment productive capacity and the quantity of output. Their heavy losses were tolerated because of the special tasks assigned to them by the central planners; and their operations, despite their manifest inefficiencies and the waste of resources financed from the considerable economic rent provided by oil and gas revenues. A major characteristic of the management system of the public enterprises during this period was the lack of a clear dividing line between macro and micro-management processes, between the state administration and the enterprises. This system produced serious distortions in the economy and conflicts of interests between enterprises and the central administrations.

The aim of the 1980 reforms was precisely to reverse these trends. Given the country's limited reserves of oil, the uncertainties regarding oil prices in world markets, and the high inflationary pressures, the Algerian authorities wished to rehabilitate the economic function of the public enterprises and make them responsible for their

own growth.

In order to achieve this, the public enterprises were broken up into smaller, specialised and more manageable units. They had to divest themselves of activities not directly connected with their main specialisation. In addition, a financial rehabilitation scheme was introduced. Measures to strengthen the financial autonomy of the enterprises included the deregulation of many prices, the reactivation of the role of credit, the introduction of self-financing and the decentralisation of minor investment decisions to the enterprises themselves. The reform proposals also promised that in the future precedence would be given to the use of indirect economic and financial levers to influence management decisions.

This study has presented an exhaustive analysis of the reform measures. The principal conclusion is that a number of factors significantly reduced the impact of the reform. The marginal results of the reform can be attributed both to the design of the reform measures and the speed at which they were implemented. The reforms were abruptly triggered off by a political crisis which required that the changes were introduced without delay. As a result, there was insufficient time to prepare detailed blueprints for the new system. This led to numerous contradictions in the objectives of the reforms and the changes introduced in the management of the enterprises.

The reform proposals, both in their design and implementation, contained a number of compromises which were essentially conservative. The proposals contained several measures which, despite the declared objectives of the reform, involved an increase in centralisation. In fact, the reform programme did not question at all the planning system within which the enterprises operated and which significantly affected their decisions and their resources. Neither the Commission Ad-Hoc de

la Restructuration Financière des Entreprises (CRFE), nor the Commission National de la Restructuration des Entreprises (CNRE) called for a review of the relationships between the central administrations and the enterprises. On the contrary, various official documents, especially those issued by the Ministry of Planning and various Party resolutions, called for the introduction of rigorous and tight control measures at all levels of the planning hierarchy. Indeed, as Chapter Eleven has clearly shown, the public enterprises have since 1980 become fully integrated into a centralised planning system which leaves little room for manoeuvre to managers. Consequently, the retention of the basic framework of the command economy virtually assumed the continuation of the functional characteristics associated with it. This also meant that the conditions largely responsible for the traditional conflicts between central and local interests were essentially unmodified.

The alterations in the structures of public enterprises while at the same time keeping the existing planning system unchanged is a clear manifestation of the central planners' perceptions of the real causes underlying their problems. They assumed that the financial and economic problems of the public firms were basically the result of deficiencies in their internal structures and mismanagement, and not due to the external constraints imposed on them by the social, economic and institutional setting in which they operated. The question here is whether the problems of size and structure have not been somewhat exaggerated by the central authorities in relation to the problems associated with the methods of planning and control.

Despite the central planners emphasis on decentralised initiative and the extensive use of financial criteria in decision making in public enterprises, the reform proposals and in particular those

pertaining to credit, prices and self-financing policies had not been implemented by 1986. This is mainly due to the fact that the preconditions for the proper functioning of the economic and financial regulations have not been met. In particular, the main focus of the reorganisation scheme has been the structure of enterprises and not the 'enterprises' themselves. For instance, the reform documents remained silent on a number of issues which are crucial for the application of economic and financial levers such as the financial structure of the enterprise, the economic and legal status of its assets, its right of decision in investment, the nature of its relationships with other state enterprises, its internal organisation.

How are these inconsistencies to be explained? How is one to explain the central planners' search for efficiency and decentralised initiative and at the same time their adoption of tight planning and control measures? A number of hypotheses may be offered.

First, the ideas underlying the reform scheme and the accompanying implementation measures evolved within the context of political and ideological conflict involving the major social groups forming the wider public sector. Thus, while there seems to be some general agreement as to the seriousness of the economic crisis, its wider implications and the urgent need for change, it is in fact the direction, the speed and the extent of this change which is subject to debate and disagreement among various factions. The inconsistencies of the reform proposals can be traced in the first instance to the emergence of two conflicting tendencies within the central administrations during the preparation of the reform blueprint, each starting from its own perceptions of the underlying causes of the country's economic difficulties and the malfunction of the planning system in the period prior to the reform.

The advocates of a centralised system, headed by the Ministry of Planning, argued that the country needed, in these difficult times, more centralisation and not less. They argued that the economic and financial distortions which emerged in the 1970's were inevitable under the former system because it was weak, incomplete and decentralised. To support their view they frequently referred to the comparative weakness of the central planning office in relation to that of the enterprise technocrats and the sectoral ministries, to the absence of production and supply planning and detailed plan realisation criteria. According to this view, it is these deficiencies in the planning system which led to the proliferation and predominance of market relationships, with the inevitable consequence that the central planners completely lost control over the decisions and behaviour of enterprises. It follows that any effective action to redress the situation must start with improving central planning and control and by the introduction of formalised planning structures, procedures and management norms and performance indicators at all levels of the planning hierarchy.

The other tendency, headed by the Ministry of Finance, was favourable to the idea of constructing a 'guided market' economy. The supporters of this view argued that the disturbances and distortions observed in the past were a natural result of the directive-administrative management system. Under such a system it was not possible to draw a dividing line between the macro and micro-economic processes. In the past, enterprises had been regarded almost exclusively as agents for economic growth and social reproduction, and, therefore, financial viability was overlooked. In order to achieve the objective of greater efficiency through rationalisation sought by the state, the supporters of this model called for the transformation

of the existing directive-administrative system into a self-regulating one. More self-regulation could be achieved by reducing the extent and the frequency of macro-management interventions by the central administration, with their bureaucratic civil service procedures, in the micro-management processes of the public enterprises. They defended the idea that the priority of national goals could be secured through a system of economic and financial controls, or levers, which would at once allow the achievement of national objectives and reduce the conflict between the enterprises and the control administrations. The expanded use of contracts in a market context would replace a large proportion of formalised administrative procedures. Both of the above mentioned tendencies seem to have had some impact on the formulation of the reform proposals and the measures to implement them. However, up until the end of 1985, the views of the planning authority were predominant and had considerable backing from various segments of the state-party machinery. The elevation of the political status of the central planning office to that of a Ministry, and the subsequent reinforcement of comprehensive imperative planning at all levels illustrate this point.

Secondly, the impact of the reform was reduced by the deepening of the economic crisis following the abrupt fall in the price of oil in world markets. The first priority of the central planners and policy makers confronting this situation was to regain control over the economy and restore its overall balance. In fact, the balance of payments problems, the fall in foreign currency earnings, the serious intersectoral distortions, the rise in the level of unemployment, the increase in domestic demand due to very high population growth rates, the state's commitment to make basic foods available to low income groups have all constrained the central authorities' capacity to

introduce major changes in the administrative system of planning and control.

Given these constraints, the reorganisation of public enterprises may be regarded as a search by the Algerian authorities for an improved system of management of the economy and an attempt to introduce some kind of financial discipline and transparency rather than granting the enterprises more decision-making powers. Moreover, it seems as though the central authorities were aware that there existed a high potential for improving productivity and utilisation of capacity in the enterprises which could be achieved through the rationalisation of their structures right down to the basic operating units and the introduction of tighter control measures, involving compulsion, if necessary, rather than reforming the management system as a whole.

A third explanation of the limited effect of the reform was that the revision of the existing decision-making processes was a politically sensitive issue because it struck at the roots of state power. Adoption of the market as the main device for integrating macro and micro-economic interests would mean the transfer of decision-making power, at least in the field of micro-economics, to the managerial class and eventually, through the mechanism of the market to the population as a whole. The conservative approach to both the conceptualisation and the implementation of the reform measures may perhaps explain why the public enterprise managers viewed the reform as a 'political' and not an 'economic' initiative. Indeed, many observers saw the reorganisation of the public enterprises as merely a political move aimed at counterbalancing the ascendant power of enterprise technocracy and restoring more effective central control over their operations.

The above discussion of the 1980 reforms has concentrated only on

the limitations of the economic and organisational changes in the short term. These reforms clearly may have long-term, latent consequences which cannot yet be fully evaluated. There is, indeed, a sense in which the 1980 reforms must be seen as a long-term perspective, because the operation is still evolving and because decisions to introduce major changes in the management system are made within the framework of a complex institutional system and depend on changes in the power structure within the ruling class. The reform as implemented between 1980 and 1986 has revealed two significant facts.

It has shown that the discussion on the public enterprise and its role in the national economy has only just begun. There are many issues and contradictions still to be resolved. The other fact is that to transform the public enterprise into a real 'enterprise' requires the transformation not only of the enterprise itself but the whole economic and institutional system in which it operates. The resolutions of the National Conference on Development held at the end of 1986 came to this conclusion and called for a major overhaul of the institutional environment of the public enterprises; and for the separation of the finances of the enterprise from those of the state. This indicates that the administrative methods of planning and control have reached an impasse and denotes a shift in the balance of power in favour of the advocates of constructing a market-based system. Here again the future of the public enterprise is not clear at all.

How far are the Algerian authorities planning to go in their reforms of public enterprises? It should be noted that the debate has so far been limited to discussions about the most efficient methods of planning and control and has not questioned the public ownership of these enterprises. Ownership of these enterprises by the state was officially confirmed by the 1986 National Charter. In the medium



term, the privatisation of the public sector enterprises is not on the agenda and even goes beyond the limits of political legitimacy. Moreover, the bureaucratic bourgeoisie will not gain a substantial pecuniary interest from liquidating the public sector or some segments of it. On the contrary, it will profit from the expansion of the existing private sector, in as much as the sector is dependent on markets created by the public sector or the incomes received by it. More important, perhaps, is the fact that a predominantly 'free economy' would remove the political *raison d'être* of the bourgeoisie.

Annexe no 1. The main activity coverage of the national industrial enterprises

The enterprise	Major product groups	No. of production units	Own distribution units	Monopoly over imports	R & D units	Capital construction facilities
<u>Ministry of Light Industries</u>						
1. SNMC ( Construction Materials)	Cement, plaster, lime Bricks & tiles Ceramics ( bathroom & sanitary appliances, earthenware, tiles & skirtings) manufactured items ( pipes, gardening appliances) Aggregates	79	31	Yes	-	-
2. SNLB (Wood & Cork)	Wood processing Furniture General carpentry Pummelling & processing of cork Wood-based prefabricated houses.	31	retail	No	-	-
3. SN. SEMPAC ( Cereal Processing )	Milling & bread Semolina, flour & pastry Baby food Biscuits	70	31	cereals only	-	-
4. SOGEDIA ( Food processing )	Confectionary Processing & refining of sugar Vegetable fats, margarine, soap Canned food ( processing & canning of fruits & vegetables)	27	165 Wholesale depots 199 retail shops	Yes	-	-

Annexe no. 1 The main activity coverage of the national industrial enterprises ( continued)

The enterprise	Major product groups	No. of production units	Own distribution units	Monopoly over imports	R & D units	Capital construction facilities
5. SNEMA (Mineral water)	Exploitation and processing of mineral water Production of soft drinks Production of alcoholic beverages	12	Wholesale in major consumption areas	-	-	-
6. SNTA (Tobacco & Matches)	Tobacco Cigarettes Cigars Match	16	3 Regional distribution centres	Yes	No	No
7. SONITEX ( Textiles)	Textiles : Spinning & waving cotton, fibre, wool, and silk threads, yarns & various materials. Ready-to- wear garments : overalls, suits, shirts, childrens'wear... Ready-made household linen, curtains, blankets, ... Tents, camping and sports articles, luggage, parasols...	45	Wholesale & retail shops in major urban centres.	No	No	No
8. SONIPEC ( Leather & shoes)	Tanning Shoe manufacturing Fine leather goods Leather cloths Luggage ( synthetic & leather)	19	Extensive network of retail shops	tanning only	No	No

Annexe no. 1 The main activity coverage of the national industrial enterprises ( continued )

The enterprise	Major product groups	No. of production units	Own distribution units	Monopoly over imports	R & D units	Capital construction facilities
9. SNIC ( Light Chemistry )	Paints Detergents & cleaning articles Glass & abrasives Ceramics ( porcelain & china ) Cosmetics	14	3	Yes	-	-
10. SONIC ( Cellulosis Industries )	Paper pastry A variety of papers ( printing, wrapping, writing... ) Cartons, Chlorinated products	10	wholesale shops	-	No	No
11. SNAT ( Art & Craftworks )	Carpets & rugs Furniture Jewellery Iron works	3	Retail shops	-	-	-
12. SNERI ( Industrial Design )	Market research & feasibility studies, Industrial design & engineering Consultancy in industrial organisation, Project installation	-	-	-	-	-

Annexe No. 1 The main activity coverage of the national industrial enterprises ( continued )

The enterprise	Major product groups	No. of production units	Own distribution units	monopoly over imports	R&D units	capital construction facilities
<u>Ministry of heavy industries</u>						
1. SONAREM ( Mining )	Iron ore, Coal Phosphate, Mercury Non-ferrous metals Marble Salt	33	Wholesale + Exports	Yes	1 Joint-venture subsidiary	-
2. SNS ( Steel Works )	Iron cast, non-processed steel Welded spiral tubing Coils, rolled steel & concrete Casting, pip-line, tin plates Machine wire, sheet metal Compressed gas Reprocessing of scrap iron Household appliances Electrolytic zinc & other steel by-products.	26	Wholesale & retail	Yes	2 Joint-venture subsidiaries	3 Joint-venture subsidiaries
3. SN.METAL ( Metal Works )	Boilerworks, locksmithing, Iron works, structural constructions Cranes, wagons, bridges & porticos Cement mixers, dumpers, Wheelbarrows, plastics, metal buildings Sanitary & household appliances.	19	Wholesale & retail	Yes	2 joint-venture subsidiaries	1 Joint-venture subsidiary

Annexe no.1 The main activity coverage of the public industrial enterprise ( continued )

The enterprise	Major product group	No. of production units	Own distribution units	monopoly over imports	R&D units	Capital construction facilities
4. SONACOME (Mechanical Engineering)	Automobiles, buses, lorries, coaches, trailers, engines Motorbicycles & bicycles Foundary & forge Agricultural machinery : tractors, harvesters, sprayers Irrigation engineering : pumps, pipes, gates, taps... Public works equipment: shovels, cranes, caterpillars... Machine-tools hardware, household appliances (i.e. cutlery )	19	Wholesale & retail	Yes	1 joint-venture subsidiary	-
5. SONELEC (Electronics & Electrical Engineering )	Consumer durables : fridges, cookers, stoves, water heaters, TV & Hi-Fi equipment Lighting & wires Electro-chemicals : batteries, accumulators,... Electrical engineering	13	Yes	Yes	No	No

Annexe no. 1 The activity coverage of the public industrial enterprises ( continued )

The enterprise	Major product groups	No. of production units	Own distribution units	Monopoly over imports	R&D units	Capital construction facilities
<u>Ministry of Energy &amp; Petrochemical Industries</u>						
1. SONATRACH ( Hydrocarbons )						
	Search for oil & gas	-	Retail	Yes	Several joint-venture subsidiaries	Several joint-venture subsidiaries
	Extraction of hydrocarbons		+			
	Transportation of oil & gas		Exports			
	Refining of oil					
	Liquification of gas					
	Distribution of refined oil & gas (liquified )					
	Processing of petrochemicals					
	Plastics, rubber, fertilizers.					
2. SONELGAS ( Electricity & Gas )						
	Production and supply of electricity	48	-	-	-	-
	Supply of town gas					
	Sale of gas & electrical household appliances					

## Annexe no 2. The reorganisation of public industrial enterprises

### 1. Light Industries

Parent enterprise		New enterprises	Location of head office
SONITEX ( Textiles )	5 1	national enterprises specialised by similar product groups (wool, cotton, textiles, silk, made-to-measure garments) national marketing enterprise.	Algiers, Bejaia, Tizi-Ouzou, Tlemcen, M'sila .
SONIPEC (Leather & skin, shoes )	2 1	national enterprises ( basic processes, manufacturing ) national marketing enterprise	Jijel, Mascara, Chrea
SN SEMPAC (Processing of cereals )	5	regional enterprises	Algiers, Bel Abbes Constantine, Tiaret
SNMC ( Construction materials )	11 1	regional enterprises grouped on the basis of similar production activities national enterprises for research and development.	Chelef, Meftah, Constantine, Zahana Batna, M. El-Kebir Boumerdes. Bodouaou, Tlemcen
SNIC ( Chemical industries )	3	national enterprises specialised by similar group products (paint, detergents, glass and abrasives )	Sour El Ghouzlan Maghnia, Lakhdaria Constantine
SOGEDIA (Food processing )	3	national enterprises ( sugar, oil & fat products, canning of fruits & vegetables )	Chelef, Algiers, Boufarik
SNEMA ( Mineral water, soft drinks, beer )	3	regional enterprises	Algiers, Batna, Saida
SNLB ( Wood & furniture, cork )	4	national enterprises specialised by similar group products ( wood & furniture, carpentry, hardware, cork )	Jijel, Boufarik, Oum Bouaghi, El Eulma
SNERI ( Engineering & project construction )	2 3	national enterprises regional project installation enterprises	Algiers, Blida, Bouira, Oran, . Annaba
SNAT ( Arts & crafts )	1 3	national board for the promotion of arts and crafts. regional enterprises.	Algiers, Batna, Tizi Ouzo



## Annexe no 2. The reorganisation of public industrial enterprises

### 2. Heavy Industries

Parent enterprise		New enterprises	Locatio of head office
SONAREM ( Mining )	4 1 1	national production enterprises ( iron ore & phosphate, salt, marble, non ferrous) national enterprise for exploratoin & research national enterprise for development of mining industry.	Skikda, Constantine Tebessa, Algiers, Boumerdes
SN METAL (Metallurgy )	5	national enterprises specialised by similar production processes ( capital goods, rail machinery, structural constructions, foundry products).	Oran, Annaba, Tiaret, Algiers. Ain Defla
SONELEC (Electrical engineering & electronics )	8	national enterprises ( wires, electronics, electro-chemistry, electro-technicals, home appliances, lifts, electrical appliances, cables )	Setif, Constantine, Berouaghia, Oran Ain Semara, Algiers Bel Abbes, Rouiba
SONACOME (Mechanical engineering )	9  1 1	national enterprises specialised by major segments of activity (hydraulic equipment, machine tools, cutlery, vehicles, bicycles & motobicycles, public works equipment, mechanical engineering, agricultural machinery) national enterprise for project construction national marketing enterprise	Berouaghia, Setif, Algiers, Oran, Hamiz Ain Semara, Rouiba Constantine, Oran
SNS (Iron & steel )	1 5  3 4 4	residual national enterprise national enterprises specialised by similar group products ( packaging, industrial gas, steel & iron processing, long steel products, steel plates ), regional enterprises ( for reprocessing metals & steel waste) regional project construction firms regional engineering & design firms	Annaba, Algiers, Oran, M'sila, Jijel Constantine, Blida

### 3. Energy and Petrochemical Industries

SONELGAZ ( Electricity & gas)	3	national enterprises ( electrical works & installation, electrification works, project construction and distribution networks)	Algiers, Media, Bourdj-Menail.
SONATRACH ( Petroleum & ptochemicals)	12	national enterprises specialised by similar activities or homogenous production processes (refining & distribution of petrol, plastics & rubber, civil engineering, pipe lines, oil wells works, geophisics, drilling, industrial design and engineering, fertilizers, petrochemicals )	Setif, Algiers, Oran, Ain Semara, rouiba, Bel Abbes, Arzew, Hassi Messaoud, Skikda, Hamiz

## BIBLIOGRAPHY

### Books

Aharoni, Y, and Vernon, R, "State-Owned Enterprises in Western Economies", St Martin's Press, 1981.

Amer, S, "L'Industrialisation en Algérie - L'Entreprise Algérienne dans le Développement", Editions Anthropos, 1983, Paris.

Belaiboud, M, "Gestion Stratégique de l'Entreprise Publique Algérienne", OPU, 1985, Algiers.

Benachenhou, A, "L'Expérience Algérienne de Planification et de Développement 1962-1982", Office des publications universitaires OPU, 1986, Algiers.

Benhouria, T, "L'Economie de l'Algérie", François Maspero, 1980, Paris.

Bettelheim, Ch, "Calcul Economique et Formes de Propriété", François Maspero, 1970, Paris.

Boukrami, S A, "Formes de Marchés et Politique de l'Entreprise", OPU, 1984, Algiers.

Boussoumah, M, "L'Entreprise Socialiste en Algérie", OPU, 1982, Algiers.

Bouzidi, A, "Questions Actuelles de la Planification Algérienne", ENAP/ENAL, 1984, Algiers.

Cyert, R, and March J, "A Behavioural Theory of the Firm", Prentice Hall, Englewood Cliffs, 1963, N Jersey.

Feiwel, G R, "The Economics of a Socialist Enterprise: A Case Study of the Polish Firm", Frederick A Praeger Publishers, 1965, New York.

Freris, A, "The Soviet Industrial Enterprise: Theory and Practice", Croom Helm, 1984, London.

Friss, I, "Reform of the Hungarian Economic Mechanism in Hungary", Akademiai, 1969, Budapest.

Ghezali, M, "La Participation des Travailleurs a la Gestion des Entreprises", OPU, 1984, Algiers.

Glassman, G and Kramer, J, "Essai sur l'Université et les Cadres en Algérie", CNRS, 1980, Paris.

Godelier, M, "Rationalité et Irrationalité en Economie", 2 volumes, Maspero, 1971, Paris.

Granick, D, "Enterprise Guidance in Eastern Europe", Princeton University Press, 1975, Princeton, New Jersey.

Greffe, X, "Analyse Economique de la Bureaucratie", Economica, 1981, Paris.

International Center for Public Enterprise in Developing Countries (ICPE), "Control Systems for Public Enterprises in Developing Countries", ICPE, 1979, Ljubjana.

Jeffries, I, "The Industrial Enterprise in Eastern Europe", Praeger, UK, 1981.

Jones, L, "Public Enterprise in Less Developed Countries", Cambridge University Press, 1982, New York.

-----, "Public Enterprise and Economic Development: The Korean case", Korean Development Institute, 1975, Seoul.

Kende, P, "La Logique de l'Economie Centralisée", Sedes, 1964.

Koulytchizky, S, "L'Autogestion, l'Homme et l'Etat: l'Expérience Algérienne", Mouton, 1974.

Lavigne, M, "Les Economies Socialistes", Colin, A, 1979, Paris.

Lorenzi, J M, "Le Marché dans la Planification", Presse Universitaire de France, 1975, Paris.

Marnia Lazreg, "The Emergence of Class in Algeria", Westview Press, 1976, Boulder, Colorado.

Ottaway, David and Marina, "The Politics of a Socialist Revolution", 1970, Berkeley, USA.

Ouraba, M, "Transformations Economiques de l'Algérie", publisud 1982, Paris.

Powels, J G, "Réflexions sur les Nouvelles Orientations Economiques et Energétiques du Plan Quinquennal (1980-1984)", ENAL, 1983, Algiers.

Quandt, W, "Revolution and Political Leadership: Algeria", Harper and Row, 1970, New York.

Raffinot, M and Jacquemot, P, "Le Capitalism d'Etat Algérien", Francois Maspero, 1977, Paris.

Saadi, N, "La Gestion Socialiste des Entreprises", OPU, 1985, Algiers.

Sellami, A, "Petite et Moyenne Industrie et Développement Economique", Entreprise Nationale du Livre, 1984, Algiers.

Sobhane, R, and Ahmed, M, "Public Enterprises in an Intermediate Regime: A Case Study of the Political Economy of Bangladesh", Institute of Development Studies, 1980.

Trebat, Th, "Public Enterprises in Brazil and Mexico: Comparative Structure, Control and Performance", Bankers Trust, 1980, New York.

Turvey, R, "Public Enterprise Economics", Penguin, 1968, Harmondsworth.

-----, "Economic Analysis and Public Enterprises", Allen and Unwin, 1971, London.

United Nations, "Some Problems in the Organisation and Administration of Public Enterprises in the Industrial Field", 1981, New York.

Vernon, Raymond, "Big Business and the State", Harvard University Press, 1974, Mass.

Wiles, P J D, "Economic Institutions Compared", Basil Blackwell, 1977, Oxford.

Williamson, O E, "The Economics of Discretionary Behaviour: Management Objectives in a Theory of the Firm", Prentice Hall, Englewood Cliffs, 1964, N Jersey.

Zeffane, R, "International Perspectives on Management and Organisation", Gower Publication Corporation Ltd, 1981, London.

Zielinski, J G, "Economic Reforms in Polish Industry", Oxford University Press, 1973, London.

#### Theses and dissertations

Arabello, G, "Une Tentative de Développement Planifié en Marge de l'Internationalisation du Capital: l'Algérie 1962-1975", Doctoral thesis, Grenoble University, 1976.

Baud, Y, "Rapports entre l'Etat et l'Entreprise Publique", Doctoral thesis in economics, Paris X University, Nanterre, 1979.

Belaiboud, M, "L'entreprise Publique Algérienne et les Obstacles Contrariant sa Croissance", Doctoral thesis in management, Paris-Dauphine, 1980.

Benamara, N, "Le Droit de l'Entreprise Publique et le Socialisme de l'Economie", Doctoral thesis in law, Paris X University, Nanterre, 1980.

Boudaoud, L, "Le Secteur Public dans une Economie en Transition vers le Socialisme: le Cas de l'Algérie".

Boudjar, M, "Financement du Développement et Système Bancaire", Doctoral thesis in economics submitted at the University of Rennes, 1978, France.

Boukendour, S, "Contributions à l'Analyse des Processus de Gestion des investissements des Entreprises Publiques Algériennes", Doctoral thesis submitted at the IEC, University of Grenoble, 1983.

Boukhezar, O, "Modèle de Formation des Prix en Vue d'une Politique de Développement: l'Exemple de l'Algérie", Doctoral thesis, ISE, Algiers University, 1977.

Bouyacoub, A, "La Séparation des Fonctions de Production et de Commercialisation dans Certaines Sociétés Nationales", thesis in Management, Paris-Dauphine, 1976.

-----, "La Gestion de l'Entreprise Industrielle Publique en Algérie", Doctoral thesis in economics, ISE, Oran University, 1984, Algeria.

Djaroud, M, "Processus de Transfer de Savoir-Faire et Organisation: Description et Analyse", Master's Degree thesis in economics, ISE, University of Oran, 1983.

Drissa, K, "Firme Publique et Développement Economique", Doctoral thesis in management, Paris-Dauphine, 1974.

El Baz, M, "Comportement stratégique de l'Entreprise Face aux Contraintes Physico-Financières et Soci-Culturelles", Doctoral thesis in management, Paris-Dauphine, 1977.

Fardeheb, A, "La Politique d'Investissements dans le Secteur d'Etat et le Développement Economique", Doctoral thesis in economics, Grenoble University, 1980.

-----, "Le Rôle du Secteur d'Etat Industriel dans la Politique de Développement en Algérie", Dissertation submitted for the DES degree in economics, ISE, Algiers University, 1971.

Hamel, B, "Système Productif et Indépendance Nationale", Doctoral thesis in economics, Grenoble University, 1980.

Kabbam, M, "L'Entreprise Publique et les Problèmes Juridiques d'Exécution du Plan (Exemple de SONELGAZ)", Dissertation for the DES Degree in Public Law, Faculty of Law, Algiers University, 1972.

Madi, M, "La Gestion Socialiste des Entreprises en Algérie (1971-1981). Organisation de l'Etat dans l'Entreprise et Résistance Ouvrière", Doctoral thesis in management, Paris-Dauphine, 1979.

Mettouchi, H A, "Les Systèmes de Planification et de Gestion de l'Entreprise Publique Algérienne. Approche Organisationnelle du Développement des Sociétés Nationales du Secteur de la transformation des Métaux", Doctoral thesis submitted at the IAE, Grenoble University, 1975.

Mihoubi, A, "La Planification Algérienne avec Référence à l'Expérience Soviétique", Dissertation for the DES Degree in Economics, ISE, Algiers University 1976.

Thierry, S P, "La Crise du Système Productif Algérien", Doctoral thesis in economics submitted at the University of Grenoble, 1982.

Yanat, M, "Les Finances de l'Entreprise Socialiste", Dissertation for the DES Degree in Public Law, Faculty of Law, University of Algiers, 1978.

## Articles and Conference Papers

Aharoni, Y, "State-Owned Enterprises: An Agent Without a Principal", in "Public Enterprises in Less Developed Countries", editor Jones Leroy, Cambridge University Press, 1982, New York, pp 54-62.

Ahmed, M, "Whither Public Enterprise", Political Economy 2, 1974, pp 297-312.

Akkache, A, "Introduction à la Politique Nationale des Salaires", in La Revue Algérienne du Travail, no 17, January-March 1987, pp 15-24.

Barak, M, "Quelques Remarques à Propos d'une Contribution à une Réflexion Théorique sur l'Entreprise Socialiste en Algérie", in Revue Algérienne de Sciences Juridiques, Economiques et Politiques (RASJEP), no 2, 1974, p 259.

Benhassine, M L, et Boukla, C, "Le Processus de Formation du Secteur d'Etat en Algérie: Bilan de Vingt Ans d'Expérience", in RASJEP, special edition, June 1982, pp 219-247.

Benaissa, S, "La Participation Financière des Entreprises Socialistes aux Charges de l'Etat", in Revue Financière, no 1, 1980.

-----, "Modernisation et Rationalisation de la Gestion dans les Entreprises et Services Publiques", in Integration, no 7, June 1982.

Benhalima, M, "Eléments sur le Système Bancaire en Algérie", in Cahiers des Sciences Sociales, Annaba University, Vol 1, no 2, p 51.

Blazyca, G, "Industrial Structure and the Economic Problems of Industry in a Centrally-Planned Economy: the Polish Case", in the Journal of Industrial Economics, Vol 28, 1979, pp 313-325.

Borella, F, "Le Droit Public Economique de l'Algérie", in RASJEP, nos 3 & 4, 1966, pp 507 and 719 respectively.

Bouchouata, K and Hakiki, H, "Le Contrôle et la Tutelle des Entreprises Publiques Algériennes", in Integration, 1975, no 3, p 163.

Boukhezar, O, "Les Problèmes Financiers des Entreprises en Développement", Séminaire sur le Développement, Algiers University, Mars 1983.

-----, "Contribution à une Réflexion sur la Rentabilité du Système de Production", in RASJEP, no 4, 1980.

Bouraoui, R, "La Gestion Monétaire et le Problème de Financement de la Production des Sociétés Nationales", in Revue Financière, no 3, 1971.

Bouyacoub, A, "La Logique de Branche: Cas des Industries de Textiles", a study prepared for the INPED, 1980.

-----, "L'Entreprise Publique Algérienne: Quelques Interrogations", Colloque "Organisation et Gestion de l'Entreprise Publique", Institute of Economics, Oran University, 19-22 April, 1982.

Bouzidi, A, "Bilan de l'Industrialisation en Algérie. Contribution à un Débat", in RASJEP, no 4, December 1979.

-----, "L'Industrie Publique en Algérie: Quelques Observations", in Revue du CENEAP, no 7, June 1986, Algiers, pp 1-35.

-----, "L'Entreprise Publique et l'Etat en Algérie", in Revue du CENEAP, no 1, Mars 1985, pp 1-8.

Bouzidi, N, "La Fonction Monopole d'Importation de l'Entreprise Publique Algérienne", in Revue du CENEAP, no 1, March 1985, pp 9-31.

Chambers, D, "Plans as Promises: What Does 'Corporate Planning' Mean in a Publically-Owned Corporation?", -----

Chikhi, S, "Le travail en Usine", in Cahiers du Centre de Recherche d'Economie Appliquée (CREA), no 4, 1984, Algiers, pp 5-35.

-----, "Grève et Société en Algérie", in la Revue du CREA, no 2, 1982, pp 85-128.

De Bernis, G D, "Les Industries Industrialisantes et l'Intégration Economique Régionale", Cahiers de l'INSEA, no 1, 1968.

-----, "Les Industries Industrialisantes et les Options Algériennes", in Tiers Monde, no 7, July-September 1971.

Gillis, M, Jenkins, G P, and Lessard, D R, "Public Enterprise Finance: Toward a New Synthesis", in "Public Enterprise in Less Developed Countries", op cit, pp 157-277.

Hadj Lazib, R, "Le Système des Salaires en Algérie", in la Revue du CENEAP, no 6, Mars 1986, pp 61-69.

Idjakirene, Ch, "Contribution de la Banque Nationale d'Algérie au Système Bancaire Algérien", in Cahiers des Sciences Sociales, Annaba University, no 2, 1985, pp 81-121.

Lavigne, M, "La réforme Economique en Europe de l'Est", revue Est/West, no 1, 1975.

Liberman, E, "Bénéfice Socialiste et Profit Capitaliste", La Nouvelle Critique, no 181, 1966.

Manistis, G C, "Managerial Autonomy in Public Enterprises: Facts and Anti-facts", Annals of Public and Cooperative Economy, 39, 1968.

Nellis, J R, "Socialist Management in Algeria", in the Journal of Modern African Studies, 15, 4, 1977, p 530.

Palloix, Ch, "Les Entreprises Publiques Algériennes: Contrainte Monétaire et Contrainte Financière", Colloque "Organisation et Gestion de l'Entreprise Publique", Institute of Economics, Oran University, 19-22 April 1982.

Raifa, H, "Decision-Making in the State-Owned Enterprises in the Western Economies", Vernon, R and Aharoni, Y, St Martin's Press, 1981, pp 54-62.

Saadi, N, "Entreprise Socialiste: Essai d'Evaluation d'un Mode de Gestion", in Revue de du CENEAP, no 1, Mars 1985, pp 32-54.

-----, "La Restructuration des Entreprises d'Etat: Essai de Présentation Analytique", in RASJEP, no 2, 1984.

Thierry, S P, "Régulation Economique et Rapport Salarial dans le Secteur Public Non Agricole", in CREA, 1980, Algiers.

Yachir, F, "Les Flux d'Importation de Technologie dans le Secteur Public Industriel en Algérie", in RASJEP, no 4, 1980.

2ème Seminaire des Cadres des Banques Nationales et des Entreprises Publiques (recommandations and conclusions) held in Algiers, 12-14 July 1971, in Revue Financiere, no 3, 1971.

Les Actes du 3ème Seminaire des Cadres des Banques et des Entreprises Publiques held in Algiers, 7-9 September 1972, in Revue Financière no 3, 1972.

Zaleski, E, "Les Unions Industrielles et les Problèmes de la Concentration des Entreprises en URSS", in Revue de l'Est, CNRS, no 1, 1970, pp 87-127.

-----, "Les Réformes d'Octobre 1965 et la Gestion de l'Entreprise en URSS", cahiers de l'INSEA serie G, May 1966.

## Official Documents

### Secretariat d'Etat au Plan

Rapport Général du Premier Plan Quadriennal (1970-1973)  
Rapport Général du Deuxième Plan Quadriennal (1974-1977)

### Ministry of Planning

"Synthèse du Bilan Economique et Social de la Décennie 1967-1978", May 1980, Algiers

Rapport Général du Premier Plan Quinquennal (1980-1984), 1980.

Rapport Général du Deuxième Plan Quinquennal (1985-1989), 1985.

"Rapport sur les Créances Inter-entreprises", June 1982.



"Plan Annuel 1983: Grandes Orientations et Equilibres Généraux de l'Economie"

"Plan de Production 1984", 1984.

"Algerie-Developpement: la Restructuration des Entreprises Publiques", May 1983.

Bilan de l'Activité Planifiée des Entreprises Nationales, 1967-1978, 1980, Algiers.

#### Front de Liberation National

Commission Ad-Hoc Chargée de la Restructuration des Entreprises. Rapport Général, April 1980, Algiers.

-----, "Recommendations aux Groupes Sectoriels: Note d'Orientation"

Commission Central D'Orientation. Charte d'Alger, 1964.

La Charte Nationale, Editions Populaires de l'Armée, 1976, Algiers.

Commission Ad-Hoc de Restructuration Financière des Entreprises, "Cadres, Critères, Canevas de la restructuration des Entreprises", 1981, Algiers.

Charte de la Gestion Socialist des Entreprises (1971).

#### Ministry of the Light Industries (MIL)

"Programmes de Travaux Portant sur l'Amélioration, la Conception et la Mise en Place de Systèmes de Gestion au sein des Entreprises Socialistes Sous Tutelle du MIL", Imprimerie de la SNIC, December 1978, Algiers.

"Réflexions sur la Restructuration des Entreprises", 1980.

"L'Action à Entreprendre pour Promouvoir une Politique de Productivité", 1979, Algiers.

"Rapport sur les Problèmes Financiers des Entreprises Socialistes", August 1978.

"Présentation Générale du Système d'Information Statistiques du Secteur Industriel", November 1979, Algiers.

"Mise en Oeuvre de la Restructuration des Entreprises. Mise au Point de la Situation", 1983, Algiers.

#### Ministry of Finance

"A Propos des Structures Financières de l'Entreprise", in Revue Financière, no 3, 1971.

Ministry of Heavy Industry (MILD)

"La Restructuration des Entreprises Nationales: le Cas du Secteur de l'Industrie Lourde", in "pour l'Industrie", CENIDIL, no 1, 1984, Algiers.

"Coûts et Surcoûts de l'Industrialisation en Algérie", a study carried out by the IREP, Grenoble University, 1973.

Periodicals and Newspapers

Actualité-Economie (monthly)

Algérie-Actualité (weekly)  
Bulletin Economique de l'APS

Cahiers du CREA (Centre de Recherche d'Economie Appliquée)

El Moudjahid (daily)

Intégration (Revue du Centre Maghrebin d'Etudes et de Recherches Administratives, Algiers)

Révolution Africaine (weekly)

Révolution et Travail (bi-monthly)

Revue Algérienne des Sciences Juridiques, Economiques et Politiques, (RASJEP), Algiers University.

