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A way forward

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The collapse in oil prices has weighed on the Algerian economy, giving rise to twin deficits in the budget and current account. In mid-2016 the government introduced a bold medium-term plan that targets a balanced budget by 2020, alongside a new growth model with a strategy for economic development and diversification by 2030. These moves have coincided with the private sector playing a much stronger role in the economy.

SNAPSHOT

Algeria in brief

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Imminent changes

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Algeria’s banking sector has held up relatively well despite recent macro-economic weakness. Credit growth remained in positive territory through the first three quarters of 2017, albeit having slowed from the double-digit rates seen in the years prior to 2016. Lenders are capitalised well in excess of Basel III norms, while profitability also remains high, particularly among banks operating in the private sector.
In October 2017 Algeria announced plans to invest $78bn in the country’s hydrocarbons sector between 2017 and 2021, with the largest share to be devoted to surveying and exploration. The plan aims to safeguard and meet domestic energy needs, while also boosting export revenues, and expanding oil and gas exploration activities.

Unlocking potential

In October 2017 Algeria announced plans to invest $78bn in the country’s hydrocarbons sector between 2017 and 2021, with the largest share to be devoted to surveying and exploration. The plan aims to safeguard and meet domestic energy needs, while also boosting export revenues, and expanding oil and gas exploration activities.

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New innovations and trends have developed in the Algerian telecoms sector, leading to the reshaping of the industry. State efforts to boost internet penetration and expand the use of communication technologies have also improved market access and reinforced the sector’s competitiveness.
Algeria in brief

A long-term structural shift is under way in the Algerian economy. Having stood at 42% in 2000, the private sector’s economic contribution grew to 70% of GDP by 2015, with economic output increasing four-fold over the same timeframe. And while the government was largely able to attenuate the impact of lower oil prices on its finances by drawing from the oil stabilisation fund, the unveiling of the country’s new economic development plan in 2016 was both a timely response to the challenges posed by the oil price collapse, and an important strategic effort to engender a more diversified, dynamic and self-sufficient economy by 2030.

Trade balance, 2014-22F ($ bn)

Source: IMF Article IV Consultation, June 2017

GDP growth, 2014-22F (%)

Source: IMF World Economic Outlook Database, Oct 2017

Bond market indicators, 2012-16

Source: SGBV

Building sector GDP*, 2011-16 (AD bn)

Source: ONS *current prices

Commercial bank assets, 2012-H1 2017 (AD bn)

Source: BoA

Industry value added growth, 2011-Q2 2017 (% change*)

Source: ONS *based on previous year’s prices
Top-10 countries by phosphate rock reserves, 2016 (000 tonnes)

Source: USGS

Foreign visitor arrivals by continent, 2016* (%)

Source: ONS

Agriculture value added, 2006-16 (% of GDP)

Source: World Bank

Health budget, 2013-17

Source: MoF

Oil indicators, 2006-16 (000 bpd)

Source: BP Statistical Review of World Energy 2017

Internet penetration, 2006-16 (% of population)

Source: World Bank

Rail transport by segment, 2012-16

Source: SNTF
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Country Profile

Diversification more urgent as market changes
Sizeable reserves of key minerals to support growth
Moves taken to boost levels of democratic participation
Bilateral deals strengthen ties with other countries
Budding oasis

The Saharan country is adapting to changing market conditions

With an area of 2.38m sq km, Algeria became the largest country in Africa when the Republic of South Sudan gained its independence from Sudan in 2011. Located in the Maghreb region of North Africa, it has a Mediterranean coastline of just under 1000 km and land borders with seven countries and territories – Libya, Mali, Mauritania, Morocco, Niger, Tunisia and the Western Sahara – at a combined length of 6734 km. The country is home to numerous mountain ranges, including the Tellian and Saharan Atlas ranges, which run from east to west across the far north and north of the country, respectively, while the Aures mountain range is in the north-east. At 2908 metres, the highest peak is Mount Tahat, located on the Hoggar plateau in the southern wilaya (province) of Tamanrasset.

TOPOGRAPHY: The country’s topography can be roughly divided into three main terrains: a narrow coastal fertile plain to the north of the Tellian Atlas range, where most of the population is concentrated; the Hauts Plateaux, running parallel between the Tellian and Saharan Atlas ranges at an average height of 914 metres; and desert terrain south of the Saharan Atlas, which accounts for most of the country’s territory. The climate is characterised as Mediterranean, with hot, dry summers and cool, wet winters in the coastal plain; a drier climate with similar temperatures in the Hauts Plateaux; and a hot, desert climate in the centre and south of the country. In the capital city of Algiers, August is the hottest month of the year, with temperatures ranging between an average minimum temperature of 22°C and an average maximum of 29°C, while January, the coolest month of the year, sees an average range of 9-15°C. Rainfall levels vary, with December seeing the most, at an average of 137 mm, while August averages nearly zero.

PEOPLE: As of December 2017, the population numbered 41.6m people, according to UN estimates. This makes it the most populous country in the Maghreb region, ahead of Morocco at 35.9m; and the second most populous in North Africa, behind Egypt at 98.4m. With a population of about 2.6m, the national capital is located on the coast, approximately halfway between the eastern and western borders. Other major cities include the western coastal city of Oran, the north-western city of Tlemcen, the eastern coastal city of Annaba and the north-eastern city of Constantine. The country is administratively divided into 48 wilayas. The most populous province is the wilaya of Algiers, which is home to the capital of the same name, while the largest by area is the southern wilaya of Tamanrasset.

The population is growing at a rate of around 1.8% a year, according to 2016 World Bank figures. Annual growth fell in the 1980s and 1990s, from 3.2% in 1983 to 1.3% in 2002, before rising to 2% in 2012, though now it appears to be on a downward trajectory once again. The population is relatively young, having a median age of 27.8 years and 44.6% of citizens under the age of 25. However, it has been ageing in recent decades, with the proportion of the population under the age of 15 having fallen from 38.7% in 1996 to 29% in 2016. Life expectancy at birth currently stands at 76 years.

LANGUAGE, ETHNICITY & RELIGION: Around 99% of the population is of Arab-Berber ethnicity, which means that nearly all of the citizenry is descended from Berber or Amazigh populations – the indigenous pre-Islamic peoples of North Africa. The Berber population is primarily concentrated in the north-eastern mountainous region of Kabylie, east of Algiers; although, Berber populations also exist in other parts of the country, such as the Mozabite Berbers of the M’zab Valley in central Algeria, where the city of Ghardaïa is located. Around 15% of the population continues to view their ethnicity as of primarily Berber descent, but most now consider
themselves as Arabs and speak Algerian dialects of Arabic as their primary language.

The Arabic language in Algeria is characterised by diglossia: Modern Standard Arabic – the formalised version of Arabic – is used in the news media, formal education and in formal government business, while colloquial local dialects – known collectively in the Maghreb as darja – are used for everyday speech. People often speak one of several Algerian Berber languages as well, though more or less all Algerians can speak Arabic. The instruction and official use of the Berber language, Tamazight, was outlawed for decades. However, the state created a High Commission for Berber Affairs in 1995 and legalised Berber language instruction. In a package of constitutional reforms enacted in 2016, Tamazight was recognised as an official national language alongside Arabic.

As a former colony of France, French is also widely spoken, particularly among the elite, and is used in many print media publications. However, French is not generally used as the primary language of conversation between Algerians, although darja does contain numerous French loan words.

Around 99% of Algerians are Sunni Muslims, largely following the Malikite rite of Sunni Islam, which predominate in the Maghreb region, and the constitution declares Islam to be the state religion. Pockets of other non-Sunni Muslim populations also exist, including Ibadi Muslims, mainly among the Moazabite Berber population of the M’zab Valley.

**ECONOMY:** Algeria’s GDP was worth $156bn in 2016, making it the largest economy in the Maghreb region and the second largest in North Africa, according to World Bank figures. With a per capita GDP of $3843, the country was the wealthiest in North Africa. While this figure was only slightly ahead of Egypt, Morocco and Tunisia, the gap is much larger on a purchasing power parity basis – which takes into account the local cost of basic goods – with Algeria at $15,049 international dollars, ahead of Tunisia, which took second place regionally at $11,598.

Despite these positive results, the economy is currently facing substantial challenges due to the sharp fall in the international price of oil in 2014 and 2015, which has strained public finances. In the years preceding the drop, the authorities had repeatedly raised public sector wages and invested heavily in infrastructure development, but the price drop has since exhausted the country’s oil reserve fund. Reducing public expenditure has therefore become a priority for the government.

The fall in the value of hydrocarbons exports has also led to rapid deterioration in the current account balances, which stood at a deficit of 16.5% of GDP in 2015 and a similar figure in 2016, according to IMF estimates. However, tight control over spending has seen the fiscal deficit decline to less than a projected 5% in 2017 and under 1% by 2019.

Still, the deficit put additional pressure on foreign currency reserves. To address such problems, the authorities are working to diversify the economy away from oil and gas dependency, partly by encouraging the development of the local private sector and manufacturing. Improvement in these areas would both reduce the need for government-backed investment and bring down imports. To encourage this, the state has compelled foreign firms to manufacture goods locally, partly by raising the costs of importing finished manufactured goods.

**NATURAL RESOURCES:** Algeria is a major producer of hydrocarbons, which are crucial contributors to the economy. It has the third-largest proven oil reserves in Africa, behind Libya and Nigeria, with 12.2bn barrels at the end of 2016, according to the “BP Statistical Review of World Energy”.

The country also has the third-highest levels of oil production per day on the continent, behind Nigeria and Angola, with average output at 1.58m barrels per day. In terms of gas, Algeria has the second-largest proven gas reserves in Africa, ranking 10th in the world, with some 159trn cu feet of reserves. It is also the largest actual producer of natural gas in Africa and the ninth-largest internationally, producing 91.3bn cu metres in 2016.

Domestic consumption of both oil and gas has been rising over the last decade, while at the same time oil production has declined, with gas production remaining more or less stable. As a result, the amount of hydrocarbons available for export has been on a gradual downward trend.

Algeria’s sizeable reserves of key minerals, including the third-largest supply of phosphates globally and considerable amounts of iron ore, make it a prime area of investment, especially as these are currently underexploited. Infrastructure challenges associated with the remote desert locations of some key reserves, as well as a historical lack of investment in the state-dominated mining sector are the main culprits, though the authorities are working to step up investment and production in the industry.
Making progress

President Abdelaziz Bouteflika, on promoting economic growth and encouraging investment

What are the next steps for ensuring the structural emergence of Algeria in the medium term?
BOUTEFLIKA: The country’s economic pick-up would have been unthinkable without the implementation of a network of basic infrastructure, which has experienced delays due to the nation’s tragedy of the 1990s. Equally, economic development cannot be conceived without the adequate management of the citizens’ needs, in terms of employment, housing, health, education and public services.

There has been real progress achieved in these fields, and now we can congratulate ourselves for that, while also knowing that it is necessary to reinforce this achievement and make further progress.

Economic growth has averaged 3.7% in the 2000-16 period, a figure that rises to 6% if we don’t take hydrocarbons into account. GDP per capita has more than doubled in that time, from $1800 in 2000 to $3900 in 2016. Purchasing power of households has also grown considerably, at 6.3% annually on average.

Financial resources have increased, which helped to increase budget savings. This has made the funding of public investments possible, as well as the early payment of external debt. However, the finance model that has helped to achieve such progress is now constrained by the sudden drop in the per barrel price of oil, which has heavily eroded our external resources.

We have also decided to rationalise public spending, so that we can progressively balance our accounts, while also reducing the pressure from our external resources. Additionally, we aim to address the general level of imports through a combination of rationalisation and combating fraud.

It must be said that these restrictive measures don’t represent a return to any kind of bureaucratic management, nor are they a renouncement of any of our international commitments.

The macrofinancial rationalisation programme will be accompanied by a number of structural reforms that will contribute to transforming our economy and also help reach further export diversification.

What are the main principles governing the new economic growth model in Algeria?
BOUTEFLIKA: In July 2016 we adopted a new economic growth model, in agreement with our social and economic partners in the framework of the tripartite. This new model, implemented in 2017, which will run for five years, also includes an economic diversification project with a 2030 horizon. The new model is based on some simple principles: solidarity and social justice, efficiency of public spending, and strengthening the role of the private sector in the national economy, among others.

National development cannot occur without social justice and solidarity, and we will implement this while avoiding wasting resources. Algeria can be proud of appearing to be in a good position among other oil-exporting countries, with higher social transfers in comparison to GDP, although a better use of resources must be achieved, particularly by accordingly controlling the operating expenses of the state and its different agencies.

The efficiency of public spending implies a deep reform of the mechanisms of elaboration, financing and control of the state’s budget in all its parts.
The principle of strengthening the role of the private sector in the national economy will be achieved through promoting investments and public-private partnerships (PPPs). This is dependent on the necessary improvement of the business climate, cutting red tape in the process of business creation, further agreements regarding access to industrial land and working to adjust labour regulations.

Consistent improvement in the quality of governance is also a cardinal principle of our growth model. The programme that we are running in this domain affects all fields of management, evaluation and control, and will be accompanied by the development of e-governance. This principle covers the reinforcement of social dialogue and concord between public powers, employers and the trade union movement.

The launch of the new growth model will allow public accounts to regain balance in the short term, particularly in the 2020-30 period, contributing to GDP growth outside of hydrocarbons revenue, which we expect will grow by an average of 6.5%.

The model will also make significant GDP per capita growth possible, doubling the participation of the manufacturing industry to 10%, a successful transition that will notably reduce internal consumption rates, and result in a more diversified export portfolio that will support financing growth.

What are the priority sectors for boosting economic diversification, and what has been done to encourage investment?

**BOUTEFLIKA:** Our priority is to produce a stable legal framework for private investment, clean up the business environment and make it more clear, while inspiring further trust among private investors, both local and foreign. To that end, we have revisited our legislation related to investment, and in 2016 we issued a more flexible code that eased procedures. It implemented measures to increase decentralisation in matters such as allocation of land, reducing delays in land concessions, creating 50 new industrial zones and making a territorial map available to allow investors to check on opportunities.

In 2017 we have also revisited and activated a new device that will provide small and medium-sized enterprises with easier access to finance. The revision of the Customs code will also help enhance and simplify administrative procedures for operators. Additionally, the new e-commerce law, which is currently in the approval process, will surely help improve the business environment, too.

What approach is the country taking to encourage investment via PPPs?

**BOUTEFLIKA:** The private sector has always found its place in our economy; it is actually inconceivable for it to grow without a strong and active private sector. Regarding public partnerships, our formula has a number of advantages, particularly when it comes to implementing new forms of management, associations and partnerships between the public and private sector, but also when it comes to mobilising financing alternatives to the budget that we hope to promote in the near future.

A charter on PPPs will be signed by the government, trade unions and employer associations in the coming months. However, PPPs are not new for Algeria. According to the UN Conference on Trade and Development, Algeria features among the top-five African countries in terms of PPPs in the last 15 years.

The implementation of the new growth model is favourable for active collaboration between public and private companies. The current revision of the law on hydrocarbons will help make conditions more attractive to foreign investment in this sector.

The financial and technical contribution that foreign businesses will make to oil will allow the country to increase the value of its energy potential.
New areas of cooperation

Dmitry Medvedev, Prime Minister of Russia, on strengthening economic ties between Russia and Algeria

How does Russia intend to further develop its economic relations with Algeria?

MEDVEDEV: Algeria has been one of Russia’s primary trade and economic partners in Africa and the Arab world for years. Russian-Algerian trade doubled last year, reaching almost $4bn. While it is an impressive figure, I am confident that we can increase this considerably in the next few years by boosting cooperation in new areas.

Large Russian firms, such as Power Machines and Gazprom, have been working successfully in Algeria’s power engineering and geological exploration segments. Another example of Russian-Algerian cooperation is Renault Russia, which delivers car bodies to Algeria for final assembly. We plan to deliver bodies to assemble 18,000 cars this year. Other goals for the future include expanding the shipment to other car parts as well. Of course, we are ready to export finished goods, including civilian aircraft, cars, farming and railway equipment, as well as machinery.

We are actively cooperating with the energy sector and have many successful oil and gas projects to our credit. Russia and Algeria are major exporters of gas to Europe, and we are able to coordinate our actions at international venues, including the Gas Exporting Countries Forum and also the Organisation of the Petroleum Exporting Countries. We have developed a solid legal framework around our cooperation in nuclear energy generation. If the Algerian authorities decide to develop their nuclear industry, we would be happy to help with technology and solutions. Russia is, in fact, already training professionals in the nuclear industry to provide support for Algeria.

We are also willing to discuss clean energy projects, namely wind and solar farms, and cooperation in agriculture looks very promising. Algeria buys large amounts of grain, and as Russia is the world’s leading exporter of grain, a trade relationship between Russia and Algeria is clearly beneficial to both countries.

In which sectors of the economy can bilateral cooperation be enhanced?

MEDVEDEV: I am confident that both our countries are interested in developing cooperation in other areas, and the Joint Russian-Algerian Commission on Trade, Economic and Scientific and Technical Cooperation has a key role there. This project helps develop interaction in all areas, including improving economy and cultural ties. Working groups across various spheres of cooperation meet on a regular basis. In fact, the commission’s eighth meeting was held in September 2017 and saw good results: we set out new cooperation plans in industry, transportation, construction, geology, agriculture, health care, research, space exploration and information technology. Our Algerian partners are working on turning their country into an industry and energy hub in North Africa, and they have assured us that they want our help implementing these plans.

What similarities are shared by Russia and Algeria in regard to international political issues?

MEDVEDEV: We stand for strengthening the leading role of the UN and its Security Council in maintaining peace and security in a multi-polar world. We agree that regional conflicts must be settled diplomatically based on the UN Charter and the supremacy of international law. Russia and Algeria have similar views on the right of nations around the world to choose their future and settle their domestic problems without external interference. We also agree that the proliferation of terrorism is a global challenge. It is only by joining forces that we can stand up against it. It is time for all states to set aside their differences in order to unite and rout ISIS and other extremist groups that constitute the biggest challenge to civilisation. We will continue to coordinate our positions on foreign policy issues, including those regarding the Middle East, North Africa and sub-Saharan Africa.
Renewing confidence

Proposed constitutional amendments aim to restore faith in democratic institutions

Under the constitution Algeria is a presidential republic. The head of state is the president, who is elected for five-year terms. A rule limiting presidents to two consecutive terms in power was abolished by constitutional amendments passed in 2008, but reintroduced in 2016. However, the detail of the re-statement effectively allows the current president, Abdelaziz Bouteflika, to run for a fifth term if he wishes. The president appoints the prime minister and Cabinet as well as one-third of the members of the upper house of Parliament, and serves as commander-in-chief of the armed forces.

The legislative branch of government is represented by the bicameral Parliament, consisting of the National People’s Assembly (Assemblée Populaire Nationale, APN), which is the lower house, and the National Council, which is the upper chamber. The APN’s 432 members are elected every five years, with the most recent elections taking place in May 2017. Two-thirds of the 144 members of the National Council are elected to serve six-year terms, with half of the elected contingent (or one-third of the council’s overall membership) running for office every three years. The president appoints the remaining third of the council members.

On the local government level, walis (regional governors), who preside over each of the 48 wilayas (provinces), are also appointed by the president.

HISTORICAL BACKGROUND: Prior to its independence in 1962, Algeria was first ruled by the Ottoman Empire, though its powers over the territory became increasingly limited during the early 18th century. The country then entered a period of colonial French rule starting in 1830. Its history differed markedly from other Maghreb countries that had also undergone periods of French colonial rule: unlike neighbouring Morocco and Tunisia, both governed as protectorates, Algeria was ruled directly as a part of metropolitan France. This form of governance, however, did not extend to most Algerians being granted French citizenship – for the most part citizenship was not made available to Muslims. Also, Algeria was not granted its independence, but fought a bitter almost eight-year war of national liberation from 1954 to 1962. Although exact death counts for the war do not exist, historians have estimated that thousands of French troops and over a million Algerians died in the fighting.

As a presidential republic, the president serves as the head of state and commander-in-chief of the armed forces, appointing the prime minister, Cabinet and a third of representatives to the legislature’s upper house.

The principal pro-independence movement went on to become the main political party of newly independent Algeria.

AFTER INDEPENDENCE: The country’s principal pro-independence movement, the National Liberation Front (Front Libération Nationale, FLN) went on to become the main political movement of newly independent Algeria. Indeed, for much of the early post-independence period the country was a one-party state, though in practice the FLN as an organisation had little real decision-making power. Political influence was largely concentrated in the hands of a small number of politicians and military figures. The FLN remains the largest political party in the lower house of Parliament.

The first post-independence leader was Ahmed Ben Bella, a key figure in the FLN during the war for independence. Ben Bella, who led the country down a socialist path and advocated the non-aligned movement, ruled as president until 1965, when he was deposed in a bloodless coup by the chief of staff of the armed forces Houari Boumediene.

Boumediene followed similar leftist policies, albeit with a more centralising view. At first, he ruled the country more or less as an autocrat, but later allowed for renewed involvement from the FLN. Upon Boumediene’s death in 1978, he was followed by his brother-in-law, Chadli Benjedid. Benjedid followed a more centrist path, maintaining close relations with the FLN and the military, though he never again ruled as an autocrat. He died in 2014 and was succeeded by Abdelaziz Bouteflika, who has been in power ever since.

The country’s 48 wilayas (provinces) are headed by regional governors.
Algeria saw only limited unrest and protests in 2011, as other countries in the region experienced the Arab Spring. The government responded by raising salaries for public sector workers and increasing subsidies for consumer goods.

The current president was first elected in 1999, and was most recently re-elected in 2014 with 81.5% of the vote. Current President: President Bouteflika, now aged 80, has held the position since he was first elected to the role in 1999. He was most recently re-elected for a fourth term in 2014, when he won 81.5% of the vote from a voter turnout of 49.4%, down from the 74.6% turnout at the previous presidential elections in 2009. His nearest rival was independent candidate Ali Benflis – who served as prime minister between 2000 and 2003 – winning 12.2% of the vote. The next presidential elections are due to be held in 2019.

President Bouteflika served as foreign minister under both former Presidents Ben Bella and Boumeidine, but was absent from politics for many years until his election as president in 1999. One of his most prominent early policies was the instigation of an amnesty scheme for former militants, which helped bring a close to the country’s civil war. During his tenure as president he has also curtailed the political power of security forces, particularly that of the formerly influential Department of Intelligence and Security, which was disbanded altogether in 2016. In 2013 President Bouteflika suffered a stroke and he has been seen in public only occasionally since then.

While there have been some major terrorist incidents under Bouteflika’s presidency – including insurgency in the Kabylie mountains and other parts of the country – Algeria has remained comparatively politically stable under his rule, and saw only limited unrest and protests, most of which occurred in 2011 alongside the Arab Spring in other regional countries; however, Algeria’s unrest was largely motivated by rising food prices and unemployment levels. The protests were met with public spending increases, which included salary raises for public sector workers and increased consumer goods subsidies, and the protests never gained the critical mass seen in other Arab Spring countries.

This stability underpins much of his popularity, and supporters have used it to counter recent calls for him to step down and hold early presidential elections, given his recent ill health and lack of public appearances. Conversely, President Bouteflika’s supporters have suggested that he could run again for the position in 2019. The president’s long tenure in power and his apparent weak health have given
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Turnout for the May 2017 parliamentary elections stood at 38%.

Constitutional reforms in February 2016 reintroduced a two-term limit for post-Bouteflika presidents, and recognised the Berber language Tamazigh as an official national language.

Focus for the new administration and would require structural economic reforms.

**POLITICAL PARTIES:** Ouyahia’s government is supported in parliament by a coalition of the FLN and RND, which together secured a parliamentary majority in the May 2017 APN elections. The FLN won 164 seats in the vote, down from 221 seats in the previous parliament, but still remained the largest party, while the RND won 97 seats, up from 70.

The RND and FLN have been part of the coalition known as the Presidential Alliance since 2005. The coalition previously had the support of the moderate Islamist party the Social Movement for Peace – which has 33 seats in the current parliament – but they withdrew from the coalition in 2012.

Other parties currently represented in parliament include two other Islamist movements: the Algerian Rally for Hope, which has 19 seats in the assembly and is led by Amar Ghoul; as well as the Nadha-Adala-Bina coalition of Islamist parties, which holds 15 seats and is led by Abdallah Djaballah.

Other long-standing parties include the Socialist Forces Front, a leftist party that was founded and led by well-known figure from the war of independence, Hocine Ait Ahmed, until his death in 2015. The party, which is currently led by Ali Laskri, is particularly strong in the Kabylie region and has 14 seats in the current APN. The Workers Party is another well-established party, led by renowned opposition figure Louisa Hanoune, holding 11 seats in the lower house.

**CONSTITUTIONAL REFORM:** Among the country’s most prominent recent political developments was the passage of a package of constitutional reforms in February 2016, the second to come under President Bouteflika’s rule. Changes introduced by the reforms, which had been under discussion for many years, include the reintroduction of a two-term limit for post-Bouteflika presidents, including text discouraging the removal of such provisions, after a similar rule had been abolished by a previous package of constitutional reforms passed in 2008.

The revised document also contains a rule obliging the president to choose a prime minister from the largest political party in the APN, though this has yet to be enforced, as the current prime minister hails from the second-largest party in the chamber.

Additional key reforms also included the recognition of the Berber language Tamazigh as an official national language, alongside Arabic; changes aimed at boosting democratic rights, with new guarantees for freedom of assembly and the press; and the formation of an independent electoral commission.

These latter amendments are aimed at restoring faith in the country’s political processes, as well as galvanising voter interest, which has been characterised in recent years by low electoral participation. For example, the turnout for the May 2017 parliamentary elections stood at 38%, down from 43% five years previously, and participation in the 2014 presidential elections was also down significantly on the previous vote, from 60.9% in 1999 to 51.7%.
COUNTRY PROFILE INTERVIEW

Angelino Alfano, Minister of Foreign Affairs of Italy

Exchange economy

Angelino Alfano, Minister of Foreign Affairs of Italy, on the scope of relations between Algeria and Italy

What are some of the historical and cultural links between Italy and Algeria?
ALFANO: The relationship is deeply rooted in our common history in the Mediterranean. Over time, we have established strong cultural, scientific and economic ties, which have led to a consolidated and long-lasting friendship. Today, Algeria represents a strategic partner for Italy in many fields, especially in relation to some of our shared challenges. In 1999 President Bouteflika chose Italy for his first visit to a European country, and our bilateral relationship was then enshrined in 2003’s Treaty of Friendship, Good Neighbourliness and Cooperation, which foresees numerous areas of collaboration and regular high-level political consultations.

What role does Italy see for itself in terms of supporting economic modernisation in Algeria?
ALFANO: Since Algeria’s independence, Italy has been very supportive of its economic development. Over the years, Italian companies, in partnership with Algerian firms, have realised multiple projects in the fields of energy and infrastructure – such as highways, dams and railways – making Algeria among the most advanced countries in Africa. The key feature of the success of our economic relations lies in the fact that the cooperation between Italian and Algerian companies has always implied the exchange of knowledge, sharing best business practices and providing advanced training. Today we look with utmost interest to the Algerian government’s effort to diversify the economy of the country. The Italian experience with small and medium-sized enterprises could be shared locally in order to foster growth and sustainable development as key to promoting peace and prosperity in the Mediterranean.

How can trade and collaboration between Italian and Algerian companies be developed further?
ALFANO: In 2016 Italy was Algeria’s first commercial partner, constituting its biggest client and third-largest supplier, with over $9bn exchanged between the two countries. While acknowledging the difficult circumstances Algeria is faced with today, we are committed to the idea that exchanges remain an essential engine for growth and mutual advantages.

The Association Agreement between Algeria and the EU offers a unique framework to further increase business opportunities, and we strongly support the plan outlined by the Algerian government to boost investments and improve the business climate. Opportunities for partnerships already exist, and we need to encourage joint ventures in key sectors such as agribusiness, renewable energy, environment, automotive, innovation and creativity. For this purpose, an Algerian-Italian business club has been set up recently as a framework for meetings and exchanges between Italian and Algerian enterprises.

In which sectors do you see the most potential to strengthen bilateral ties?
ALFANO: Italy and Algeria have a long-standing strategic relationship, which was reinforced even in the difficult period of the 1990s. The centrality of the economic component of such a relationship is inarguable, but it is not the only factor that binds us.

In terms of regional security, Algeria is a key partner in the fight against terrorism, as well as other illicit transnational activities, including a common understanding of the relevance of the Sahel. We also work closely on Euromed and UN-related issues and hold a shared approach towards the Libyan crisis in view of the stabilisation of the country – a strategic priority for us. Algeria also represents an important bridge to sub-Saharan Africa due to its history, policy and geopolitical assets. On an international level, we collaborate closely to overcome the significant challenges posed by globalisation, from fighting climate change to addressing the root causes of migration. In short, our shared relations represent a win-win partnership.
In which fields is the partnership between the UK and Algeria most efficient?

**LORD RISBY:** We have forged many partnerships – BP, AstraZeneca and Unilever – and have encouraged more UK companies to enter this market than ever before. There are already a number of UK companies doing business in Algeria, including British Airways, BAT, GlaxoSmithKline, Grant Thornton, HSBC, KPMG, Llewellyn Davies, Petrofac, Rolls-Royce or Shell. Our oil and gas companies have a long history of cooperation, but there is scope for us to do more together to develop and diversify this sector. With new gas fields being discovered, there are more opportunities, not just in the exploitation of hydrocarbons resources, but also in supply chain, supportive industries and the development of low-carbon industries where the UK has considerable experience. Another important ingredient for success is human capital and training. UK companies want to work closely with Algeria to support technical and vocational education. The English language is becoming ever more popular in Algeria. My ambition is to ensure this growing demand is met by the British Council, which is working hard to improve the didactics of English language education: the training of trainers, governance, distance education and research.

What are the most recent developments in economic cooperation between the UK and Algeria?  

**LORD RISBY:** UK oil and gas companies remain keen to bring their skills and experience to the process of working with Algerian companies. In September 2017 we supported a Scottish Development International oil and gas trade delegation visit to Algeria that was extremely successful. Algeria is important to the UK, not just in the energy sector. During the past few months we have worked more closely in the defence and security industry, an area where the UK is a world leader. I am also encouraged by the Algerian government, which is driving forward the diversification and reform action plan. It is very important to provide a stable business climate for a thriving industry. It is essential, not just for local business, but to encourage and keep foreign business and investment in the country. I know that the government has been working to make investment easier and more attractive by introducing incentives such as tax breaks and streamlining administrative processes across some sectors.

However, there is always more that can be done to adapt to change, be flexible and respond to new opportunities in today’s global market. This is something the City of London wants to work closely with Algeria on. For example, I was delighted to support the minister of finance, Abderrahmane Raouya, during his visit to London in October 2017 to attend the UK-Algeria Finance Conference hosted by the Lord Mayor of London. Raouya led a delegation of over 30 Algerian financial and professional service companies and experts. I travelled again to Algeria in November to follow up with him, and we are discussing further events to be held in Algeria in early 2018.

What opportunities does the country offer to investors from the UK?  

**LORD RISBY:** Apart from hydrocarbons and defence, Algeria has plans for huge infrastructure developments such as ports, airports and renewable energy projects. The diversification and economic reform plans will also offer investment opportunities to UK companies in most sectors, particularly in financial and professional services, ICT, mining, agriculture and tourism. Algeria is large, wealthy, politically stable and is home to the closest non-European capital city to London. With 70% of its 41m-person population under the age of 40, it is an exciting and easily accessible market.

It is a time of change for both countries. Our bilateral relationship continues to strengthen and grow, and is widening into many new business ventures – so I see this as a particularly exciting time for the UK and Algeria.
Favourable ties
New agreements strengthen relations with regional neighbours and countries further abroad

Algeria has long had complicated foreign relations, having tense ties with neighbouring Morocco, which has held back regional integration, while at the same time having strong trade relations with the EU, with which it signed a free trade accord in 2002. However, its international profile is in the midst of a gradual shift, as it seeks to reduce industrial imports from traditional trading partners, such as the EU, and develop stronger trade, investment and strategic alliances with sub-Saharan Africa and China.

NORTH AFRICA: Algeria is an active member of the Arab League and is also part of both the Arab Free Trade Zone and the Arab Maghreb Union (AMU). Despite this, Algerian trade relations with its immediate neighbours have historically been weak. This is in part a result of long-running tensions with Morocco over multiple issues, including border disputes that led to a brief war between the two countries in 1963; Morocco’s annexation of the Western Sahara in 1976, which Algeria opposes; and Algeria’s consequent position as the main backer of the Sahrawi independence movement in the region, the Polisario Front. The latest eruption of tensions came in late October 2017, when Morocco recalled its ambassador after Algeria’s minister of foreign affairs, Abdelkader Messahel, claimed that Moroccan banks laundered money from the cannabis trade and appeared to suggest that Morocco’s national carrier Royal Air Maroc also trafficked cannabis.

SUB-SAHARAN AFRICA: Economic relations with sub-Saharan Africa are currently limited, with only 0.2% of Algeria’s exports going to the region in 2015, unchanged on the previous year. Meanwhile, 0.7% of imports hailed from sub-Saharan countries, down from 0.8% a year earlier and 1.5% in 2012. The largest export market in sub-Saharan Africa for Algeria was Senegal, with AD853.4m (€7.1m) worth of exports. The figure was up from the insignificant levels seen the previous year, when Sudan was the country’s main sub-Saharan export destination.

Generally, trade flows to the region are highly erratic from year to year. However, the authorities are keen to foster more stable economic ties with sub-Saharan neighbours, viewing them as promising potential markets for various sectors, particularly agriculture and manufacturing. Improvements in infrastructure connections are likely to help with this, for example the Trans-Saharan Highway that connects Algiers to Lagos in Nigeria via Mali and Niger is due to enter into service in 2018, following the completion of a final 220-km stretch in Niger.

Alexandre Kateb, founder of consultancy firm Competence Finances, said that further reforms would be needed to boost Algeria’s engagement in Africa. “Some current banking and finance regulations make it difficult for Algerian firms to take capital out of the country in order to establish activities abroad,” Kateb told OBG. “There is also a lack of Algerian financial institutions in these countries that could support Algerian firms, the way Moroccan banks do for Moroccan companies, though Algeria will get there in the end,” he added.

Ali Boumediene, CEO of Algerian electronic goods producer Bomare, said that despite efforts to increase trade, transport and logistics issues continue to pose significant obstacles. “To ship to Africa you generally have to go via Europe, which adds to the time and cost. Furthermore, in Africa,
The EU was Algeria’s largest trade partner in 2016, accounting for 54.1% of total foreign trade, and representing 44.2% and 67% of Algerian imports and exports, respectively.

Chinese-backed construction and infrastructure projects have led to a large community of Chinese residents in Algeria, and imports, respectively. 67% of Algerian imports representing 44.2% and accounting for 54.1% of the value of total Algerian imports and 67% of its exports, according to European Commission statistics. Algeria is an important energy partner for the bloc, ranking as its third-largest foreign provider of energy, which together with mining products accounted for 94% of EU imports from the country. However, it is worth noting that Algerian mining exports are small, so the overwhelming bulk of this was oil and gas.

The 2002 Association Agreement signed between Algeria and the EU came into effect in 2005, providing for the establishment of free trade of industrial goods within 12 years, meaning that in theory the zone should now be fully in effect. In practice, however, this is not yet the case. In fact, recent years have seen Algeria seeking to restrict industrial imports to help develop its own manufacturing base and reduce its trade and current account deficits, as these are increasingly placing pressure on foreign currency reserves. The country has taken both formal and informal measures to do so, including the introduction of import licences for various categories of imported goods, additionally setting import quotas for some of these products.

The EU views some of these moves as imposing new trade barriers, which arguably counters the Association Agreement. Algeria is indeed entitled to make use of a balance-of-payments derogation clause under the agreement to suspend some of its provisions, though the EU has argued that it has not formerly invoked this so far. While this has been viewed with irritation in some EU capitals, Algeria is also important to the bloc in a number of domains, such as counter-terrorism, migration control and energy security. As a result, the bloc does not appear interested in entering into a dispute or undertaking retaliatory measures over the issue for the time being. From Algeria’s side, press reports in recent years have suggested that the government wants to suspend or renegotiate the agreement, but it has not yet made any formal request to the EU to do so.

In other areas, the two parties have been making efforts to cement ties. In 2016 they conducted a joint evaluation of the Association Agreement, which resulted in the decision to conduct a series of follow-up actions, centrally aimed at providing Algeria with the technical expertise needed to pursue a variety of economic reforms. In addition, a new Partnership Priorities agreement was signed in March 2017, which is intended to establish a renewed framework for cooperation over the period to 2020. However, unlike neighbouring Morocco and Tunisia, which have both started negotiations with the EU on the creation of Deep and Comprehensive Trade Agreements, Algeria is not expected to move towards a substantially closer economic relationship with the bloc than that set out in the existing Association Agreement for the foreseeable future.

**CHINA:** An increasingly important economic and strategic partner is China. The country was Algeria’s second-largest trade partner in 2016, behind the EU, accounting for 10.2% of total foreign trade. China represented 15.8% of Algerian imports, ranking it the second-largest import partner behind the EU as a whole, and received 0.9% of Algeria’s exports, ranking it 10th, according to European Commission figures. When such trade flows are broken down into figures for individual countries, rather than treating the EU as a single bloc, China is the largest exporter to Algeria, according to 2015 data from the National Statistics Office, accounting for 16% of the total, coming ahead of France in second place at 10.5%. Chinese companies have also played a fundamental role in the financing and construction of multiple infrastructure projects in recent years, leading to the development of a sizeable community of Chinese residents in the country. Key Chinese-backed projects currently under way include the new $3.3bn deepwater port at El Hamdania, near the town of Cherchell, to the west of Algiers.

“What is important is to encourage Chinese companies to invest more in the country, especially in industrial segments, such as textiles and automobiles, where they could have a real impact on development,” Kateb told OBG. Arguably, the government could work to encourage such investments through multifaceted initiatives, such as the creation of free zones in partnership with Chinese firms. “If Algeria can create a fully functioning ecosystem in areas such as electronics manufacturing, we may see Chinese firms implant themselves in the country, as they can export from here to Europe and Africa,” Boumediene told OBG, adding that this would benefit the country by providing for technology transfer.
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Economy

Private sector contribution to GDP grows steadily
Renewed efforts focus on rebalancing the budget
State spending expected to increase by 25% in 2018
New frameworks set to bolster diversification drive
Stepping up efforts to stimulate small enterprises
The economy has undergone a long-term structural shift towards the private sector. The private sector’s contribution to GDP grew from 42% in 2000 to 70% in 2015. This shift reflects the growth in the non-hydrocarbons sector, which accounted for 74% of GDP in 2015.

A way forward

The government endorses a new long-term approach to combat lower oil prices.

The collapse in oil prices has weighed heavily on the Algerian economy, giving rise to wide twin deficits in the budget and current account. The state is heavily involved in the non-hydrocarbons sector, but depends on hydrocarbons exports for the bulk of its revenues. Given the state’s financial dependence on hydrocarbons, efforts to close the budget deficit have slowed growth. Nonetheless, moves to lessen hydrocarbons dependency have coincided with the private sector playing a much stronger role in the economy.

Algeria remains a relatively closed economy, with foreign investors barred from taking majority stakes in local firms or projects since 2008. A range of import restrictions have been introduced in recent years, as the government attempted to boost domestic production capacity and reduce imbalances in the external accounts. Diversification has not, however, extended to the export sector, the vast majority of which is still accounted for by oil and gas. In mid-2016, the government introduced a bold medium-term budget framework that targets a balanced budget by 2020, alongside a new growth model setting out a strategic vision for economic development and diversification by 2030.

STRUCTURAL SHIFT: A long-term structural shift is already under way in the Algerian economy. Having stood at 42% in 2000, the private sector’s economic contribution grew to 70% of GDP by 2015, with economic output increasing four-fold over the same timeframe. Growth in the non-hydrocarbons sector was steady over this period, maintaining an average of 6% in the decade to 2009, when it reached a peak of 9.3%, and recording an expansion of 5-8% from 2010 to 2015. Meanwhile, its share of aggregate GDP grew from 74% in 2000 to 85% by 2015. “In the past, there has been a very strong link between economic growth in Algeria and public expenditure, notably on equipment. That is why the non-hydrocarbons growth rate was relatively high, at around 6% per year over the 2004-14 period,” said Djamel Eddine Benbelkacem, deputy governor and director of research at the Bank of Algeria.

BY THE NUMBERS: Relatively robust growth in the non-hydrocarbons sector in 2014 and 2015, with gains of 5.6% and 5%, respectively, offset weakness in the still-dominant hydrocarbons sector, which contracted by 0.6% in 2014 before posting a modest 0.2% gain in 2015, according to the National Statistics Office (Office National des Statistiques, ONS). This allowed aggregate GDP growth to remain respectably strong at 3.8% in both 2014 and 2015, even in the face of lower oil prices, against which about 95% of exports are benchmarked. Despite a moderately strong rebound in the energy sector in 2016, when it posted a 7.7% gain, 2.9% non-oil growth weighed on overall GDP expansion, which slowed to 3.3%, according to the IMF. The improved performance of the industry mostly achieved during the second half of 2016 was due to both a modest recovery in the oil price from cyclical lows, as well as increased output from the Tigantourine gas plant, which ramped up its production following a terrorist attack in 2013.

Meanwhile, the government was able to attenuate the impact of lower oil prices on its finances by drawing from the oil stabilisation fund to plug a widening fiscal deficit. This in turn supported investment and consumption in the non-hydrocarbons sector.

According to the ONS, nominal GDP reached AD17.4trn ($144.3bn) in 2016, equating to $3894 per capita. At AD7.5trn ($61.9bn), or 42.9% of GDP, the investment rate remained elevated in 2016, actually increasing from the AD7trn ($58.4bn), or 42.2%, seen in 2015. Investment advanced 3.5% on the year before in terms of volume, albeit slowing slightly from the 5.7% rise in 2015. Consumption, meanwhile, held up relatively well, with growth of 3.3% in 2016.

The hydrocarbons sector maintained strong results in the first quarter of 2017, posting 7.1% year-on-year (y-o-y) gains, and helping GDP for the quarter come in 3.7% higher than a year earlier. At 2.8%, the non-oil...
growth for the quarter was rather more modest – a 1.2-percentage-point decrease on the same period of the year before. Nonetheless, it was the strongest quarterly performance for the non-hydrocarbons sector since the first half of 2016.

**PROJECTIONS:** In its World Economic Outlook published in October 2017, the IMF projected that growth would slow in the second half of 2017 and in 2018, to come in at 1.5% in 2017 and 0.8% in 2018 amid stagnation in the non-hydrocarbon sector. In mid-2017 the government, however, projected GDP expansion of 2.3-2.7% for 2017 and 3% in 2018. In any case, the non-hydrocarbons sector is expected to continue to underperform, meaning that even if growth accelerates to 2.5% by 2022, as per IMF predictions, this would be below the rate seen in the first 15 years of the 2000s. With production in the hydrocarbons sector likely to progress only modestly over the medium term, prevailing global prices will be the key determinant in its direct and indirect contribution to GDP growth and public coffers. Higher prices – Brent crude was trading at $56 per barrel in mid-December 2017 – would help cushion the coming fiscal adjustment. In an economy where the state sector still predominates, this correction in public finances is likely to be critical to the performance of the non-hydrocarbons sector. The IMF has recommended that authorities take advantage of the country’s low national debt levels to move more gradually towards a balanced budget than current plans dictate and better minimise the impact on economic growth (see analysis).

**INFLATION & MONETARY POLICY:** While lower oil prices are at the root of Algeria’s current economic challenges, some policy responses contributed to a pick-up in inflation through to mid-2017, exacerbated by volatile prices of agricultural produce. Given modest growth and financial stability risks, the central bank has maintained interest rates, while also reducing the main discount rate for open-market operations from 4% to 3.5% in September 2016, even in the face of rising consumer prices. “Interbank rates are very close to the key 3% rate,” Benbelkacem told OBG.

A variety of other factors have contributed to consumer price growth, including the tightening of import restrictions to promote domestic production, the raising of the value-added tax (VAT) rate and subsidy reforms. Similarly, the near-30% devaluation of the dinar since 2014 has fed through to higher import prices. Having been as low as 2.9% in 2014, consumer price inflation averaged 4.8% in 2015 and spiked to 6.4% in 2016 before moderating to 3.1% by the end of July 2017.

The price of industrially produced food and beverages increased by 4.05% y-o-y in July 2017, almost cancelling out the price reduction in fresh produce, resulting in food price inflation being essentially flat for the year. In the year to end-July 2017 the price of manufactured goods had increased 7.1%, the highest of any category of goods and services included in the consumer price index. Meanwhile, annual price inflation in services was 3.31% for the period.

Continued moderation in price pressures through late 2017 and into 2018 as the economy weakens further should allow the central bank to maintain an accommodative monetary stance. However, inflation rose again in the second half of 2017, reaching 6% in October, mainly due to higher food prices.

**DEVALUATION:** As the international oil price collapse saw Algeria’s terms of trade deteriorate rapidly, the authorities responded by devaluing the dinar – which is in a managed float – to help mitigate the local-currency impact of hydrocarbons revenues. From levels around AD77:$1 in early 2014, the dinar surpassed AD100:$1 in July 2015 and has traded in a relatively narrow band from 104 to 112 since late 2015.

This means that the local currency had lost approximately 30% of its value over a two-year period before consolidating at the lower level. This consolidation partly came from central bank efforts to soak up excess liquidity denominated in dinars.

Depreciation vis-à-vis the euro – the currency of Algeria’s most important trading partners – was more limited, at around 8% over the same period. In its June 2017 Article IV consultation, the IMF suggested that this still leaves the dinar considerably overvalued, noting that the foreign exchange premium on the parallel market was around 60%, with local press reporting that the dinar reached AD200:€1 on this illegal market in September 2017. The IMF recommends that further sanctioned exchange rate depreciation should be part of ongoing policy given the current economic challenges, arguing that this could reduce demand for imports without price distortions caused by import restrictions. It could also ease the burden of fiscal adjustment by boosting the dinar value of hydrocarbons revenues. Unless there is a strong recovery in the international oil price, further dinar weakness is to be expected through 2018. Following trends of the recent past, this is likely to continue feeding into higher inflation as the cost of imported goods increases.

**EXPORTS:** In 2016 oil and gas accounted for 95.2% of Algeria’s exports, this share having been as high as
During the first 10 months of 2017, the trade deficit narrowed by 34% year-on-year to $9.5bn

In May 2017 the regime was extended again to include additional product types – such as household appliances, mobile phones and cosmetics – with the government stating that restrictions could be further expanded in the future.

Administered by the Ministry of Trade, import licences allowing a certain quota of products to be brought into the country by economic actors are valid for a period of six months, after which they must be renewed. During the window opened by the ministry in the first half of April 2017, 1,540 applications for import licences were received. These submitted dossiers have yet to be examined by an inter-ministerial commission.

Certain quotas have also been tightened, for example, the number of automobiles permitted for import was reduced from 90,000 in 2016 to 30,000 for 2017. To foster domestic production, the authorities have exempted auto parts destined for assembly in Algeria from import restrictions. It is hoped that such measures will increase domestic auto production from around 30,000 vehicles in 2016 to 40,000 in 2017. Likewise, large increases in domestic agricultural production are also foreseen for the coming years.

The system of import licences is not without side effects, however. The IMF noted in its most recent Article IV Consultation that they “should be avoided, because they add to inflationary pressures, and introduce distortions and rent-seeking opportunities that are likely to drive more activity underground”.

**BALANCE OF PAYMENTS:** Having been broadly in balance in 2014, the combination of the sharp fall in the value of exports and the delayed response in declining imports meant that the trade balance swung to an $18.1bn deficit in 2015 before peaking at a deficit of $20.4bn in 2016. The IMF projected that it will decrease to $12.4bn by the end of 2017, and to $9.7bn by end-2018, before continuing a slower adjustment in subsequent years. However, during the first 10 months of 2017, the trade deficit narrowed by 34% year-on-year to $9.5bn, according to the Customs Agency.

The widening trade deficit was the key driver behind the deterioration in the current account deficit, which itself widened from 4.4% of GDP in 2014 to 16.6% in 2015 and 16.9% in 2016. Although the IMF estimates that the current account deficit will narrow to 11.9% of GDP in 2017 and improve further to 9.7% in 2018, the gap is expected to remain above 6% of GDP by 2022, giving rise to concerns about sustainability. Further currency depreciation would allow for a faster and more comprehensive adjustment in the external accounts.

**RESERVES:** The central bank had built substantial reserves up to 2014, meaning that they had scope to delay and alleviate the subsequent adjustment. However, the deterioration in the external accounts, coupled with central bank efforts to slow depreciation of the dinar since 2016, have seen a steep decline in foreign reserves. From $177bn and 33 months worth of imports at end-2014, reserves had fallen to $113bn by end-2016, and $102bn by September 2017. The IMF projects further declines in reserves in the years to come as the current account deficit is expected to

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**Economic indicators, 2017-20F**

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<td>(AD bn)</td>
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<tr>
<td>Gov’t gross debt (%</td>
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<td>17.7</td>
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<td>of GDP</td>
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<tr>
<td>balance (% of GDP)</td>
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Source: IMF World Economic Outlook Database, Oct 2017
The budget deficit is projected to stand at 9% of GDP in 2018, up from the 8% forecast for 2017 but down from 14% in 2016.
increasing the price of electricity, natural gas, petrol and diesel for the first time since 2005. Fuel prices were further increased in the 2017 budget, with the state announcing its intention to introduce a cash-transfer programme to reduce the impact of subsidy withdrawals on the most vulnerable population segments.

At the end of November 2017 Algeria’s lower house of Parliament approved hikes in subsidised petrol and diesel prices as part of the 2018 budget. Upon taking the helm of the new government in May 2017, then Prime Minister Abdelmajid Tebboune announced that further subsidy reform was on the way. In order to deepen subsidy reform efforts and design an appropriate welfare alternative, the government is collaborating with the World Bank. The latter is expected to deliver its report on the matter in March 2018. Traditionally, interest rate subsidies provided by public banks have ensured that Algerian businesses can borrow at attractive rates. This is one of the reasons why the development of the country’s capital markets has been lagging (see Capital Markets chapter).

**NATIONAL DEBT:** At 7.7% of GDP in 2014, Algeria boasted a very modest national debt before the onset of the period of lower oil prices, though major widening of the budget deficit caused the national debt to nearly triple to 21% of GDP by 2016. While the rate of increase may be of concern, the level of debt remains relatively modest compared to peer countries. According to government projections, gross debt is expected to fall slightly to 18.3% of GDP by end-2017 before increasing to 19.3% of GDP in 2018 and 19.6% of GDP in 2019. If the targeted budget surplus for 2020 is achieved in accordance with the medium-term budget framework, the national debt should begin to decline, with the IMF projecting that it will fall to 14.6% of GDP by 2022. The government continues to have an aversion to external financing, which accounted for only $3.9bn in 2016, up marginally from $3.6bn in 2014. This represents minimal growth given the rise in the overall national debt over this timeframe. Despite recommendations from the IMF to relax this constraint, there has been no indication that the authorities plan to adjust their approach.

**OIL & GAS:** After two difficult years of stagnated production in 2014 and 2015, the hydrocarbons sector enjoyed a rebound in 2016, as production surged by 7.8% to 152m tonnes of oil equivalent. This followed a slight decline of 0.6% in output in 2014 and a modest gain of 0.4% in 2015. This one-off surge in production – due in large part to the Tigantourine plant regaining full capacity, as well as new fields coming on-stream – is set to be followed by a succession of more modest y-o-y gains, with production ramping up gradually to reach 172m tonnes of oil equivalent by 2022, according to the IMF. Growth in the hydrocarbons component of GDP is therefore expected to slow to 1.3% in 2017, improving to 2.2% in both 2018 and 2019.

In an effort to accelerate production, Sonatrach, the state-owned oil firm, signalled in early 2016 that it was prepared to sell minority stakes in 20 oil and gas fields directly to foreign investors, following lack of interest in an earlier tendering process when oil prices were near cyclical lows. On top of attracting foreign funding to invest in new production capacity, such partnerships could also help bring the latest technology and know-how to the country. To generate greater interest among foreign investors over the longer term, it will likely be important to continue efforts to improve the business environment. This could be achieved through more attractive financial terms on hydrocarbons exploration and production contracts. Recognising this reality, in early 2017 the government raised the idea of making changes to the hydrocarbons law, which has been widely criticised for being too restrictive. The authorities announced in October 2017 that the first draft of the amended energy law would be ready by mid-2018.

**DIVERSIFICATION:** Given the trying circumstances – the “BP Statistical Review of World Energy 2017” estimated that the country’s gas reserves would be depleted in 49 years, and its oil reserves in 21 years – the long-term sustainability of the hydrocarbons-driven growth model is questionable. The government’s unveiling of its new economic development plan in 2016 was thus both a timely response to the challenges posed by the oil price collapse, and an important strategic effort to engender a more diversified, dynamic and self-sufficient economy by 2030 (see analysis).

**INDUSTRY:** Increasing manufacturing capacity has been a particular government priority and appears set to remain so under the growth model. Public statistics from early 2017, however, signal that existing production capacity is still underutilised, particularly in the public sector. According to survey results published by the ONS, 88% of public sector firms and 56% of their private sector counterparts were using less than 75% of their production capacity in the first quarter of 2017. The survey highlighted some of the key challenges facing Algerian industry. For example, 56% of public sector companies and 18% of those in the private sector reported a lack of supplies that had caused work stoppages. Meanwhile, 44% of private sector businesses and 13% of those in the state spoke of electricity shortages.
& présente dans les wilayas d’Alger, d’Oran et d’Annaba

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AIR ALGÉRIE
AUTOMOBILES: The auto sector provides a concrete example of Algeria’s recent experience with import substitution policies. In August 2017 the new minister for industry and mines, Youcef Yousfi, told local media that the auto industry remains a government priority. “The sector constitutes one of the essential bases for the development of a diversified economy, which would help end our dependence on hydrocarbons,” he said.

The government has moved to limit the import of cars, granting import licences to 40 actors for just 25,000 vehicles in 2017, down from nearly 100,000 in 2016, according to local press. The number of imported vehicles fell by 78% in the first half of 2017. Since 2010 imports of vehicle parts that are used to assemble vehicles in Algeria have been exonerated from taxes and Customs duties. This incentive cost AD13bn ($107.8m) in 2016 and AD8.2bn ($68m) in the first five months of 2017 alone, suggesting that government efforts have been relatively successful in shifting the final-stage assembly of vehicles to Algeria. Renault has been operating in the country since 2012, while Volkswagen opened a plant in July 2017. Hyundai and its local distributor, the Takhout Group, have also operated a production facility in Tiaret since early 2017. Additionally, in November 2017 it was announced that France’s PSA Group had signed a joint-venture agreement with Algerian partners to manufacture cars in the country.

Despite improvements, the local content in vehicles assembled in Algeria, estimated at 15%, is still limited, leading some to label these as hidden imports. Moreover, with local production unable to meet the demand for vehicles, estimated at 400,000 annually, the price of cars has reportedly risen by 40% over 2014-17.

ECONOMIC REFORMS: Challenges arising from the oil price fall have given fresh impetus to the authorities to pursue structural reforms that will further diversify the economy and promote a dynamic private sector. Initiatives include the adoption of a new investment code in July 2016, a new Customs code in December 2016 and a draft law on public-private partnerships that was being developed in 2017 (see analysis). However, further efforts are needed to improve the business environment: in the World Bank’s 2018 ease of doing business index, the country fell 10 spots to 166th place.

FOREIGN DIRECT INVESTMENT: Since 2008 foreign investors have been restricted to a maximum stake of 49% in a company. This 49:51 policy has been criticised extensively, cited as one of the reasons foreign direct investment (FDI) flows to Algeria have diminished in recent years. According to the UN Conference on Trade and Development, FDI inflows averaged $1.59bn from 2005 to 2007, but had stagnated at $1.51bn by 2014. In 2015 the figure turned negative, at -$584m, and remained below levels of a decade earlier in 2016 at $1.55bn. As a percentage of GDP, however, FDI progressed from 12.6% in 2014 to 17.3% in 2016.

Although many foreign firms that were operating in the country were granted exemptions from the 49:51 policy, foreign companies generate just 2% of Algerian GDP, according to a study published by the Franco-Algerian Chamber of Commerce and Industry in June 2017. “For investment consulting firms, there has been a drop of 20% between 2016 and 2017, which shows that Algeria needs to change its policy if it wishes to keep attracting foreign investments,” Mahfoud Kaoubi, founder and general manager of Ingénierie Financière et de Conseil en Management, told OBG.

SMALL BUSINESS: Small and medium-sized enterprises (SMEs) continue to constitute the backbone of Algeria’s private sector, with 1m SMEs accounting for 2.5m employees in 2016. Although there is evidence that the rate of enterprise formation has picked up in recent years, it has still fallen short of targets. Scaling up remains a challenge for small SMEs, while accessing finance can also be an issue (see analysis).

LABOUR MARKET: According to the ONS, the workforce stood at 12.3m in April 2017, of which only 20.6% were women. This reflects the sharp gender divergence in the labour force participation rate, which stood at 66.3% for men but 17.4% for women; the overall participation rate is 42%. In the six-months to end-April 2017 the number of people employed declined by 76,000. This decrease in was reflected in unemployment figures, which rose from 10.5% to 12.3%. The increase was particularly pronounced among young people, as the unemployment rate among those aged 16-24 grew by three percentage points to 29.7% over the period.

OUTLOOK: Although oil prices have recovered from cyclical lows and hydrocarbons production made great strides in 2016, this is insufficient to bridge the large twin deficits in public finances and external accounts. However, currency devaluation has helped mitigate increases in the current account deficit in local currency terms, and could play a further role in the future if the authorities were to further pursue this course of action.

Moves to achieve a balanced budget by 2020 are likely to be a key determinant of dynamism in the non-hydrocarbons sector in the medium term, with stagnant growth in this area of the economy likely to lead to further weakness in the labour market. In the long term, the structural economic transformation that is under way looks set to accelerate, particularly if the recent uptick in reform momentum can be sustained as the government implements its new economic model.

### GDP Growth, 2014-22F (%)

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Source: IMF World Economic Outlook Database, Oct 2017
Fiscal adjustments

Sweeping reforms seek to rebalance the budget as the country adapts to changing revenues

Given that Algeria’s hydrocarbons sector accounted for more than half of government revenues in 2014, it is hardly surprising that the collapse in oil prices from 2014 onward has hit public finances. From 8% of GDP in 2014, the deficit ballooned to 15.8% in 2015, before moderating to an estimated 14% in 2016. Algeria was able to postpone the bulk of the necessary adjustment in the public finances for three reasons: its national debt was relatively low at 8.8% of GDP in 2015, meaning it had scope to increase its borrowings; it received a large dividend from the Bank of Algeria in 2016, equaling 3.6% of GDP, with further such payments worth 4.5% of GDP expected in 2017; and it was able to draw down funds from the oil stabilisation fund to plug the deficit without needing to resort to borrowing.

Having built up a buffer in the stabilisation fund when energy prices were higher, the government was able to cushion the blow to the real economy when energy prices fell. However, the fund had been drawn down to its statutory floor by 2016, leaving the government with a choice between an increase in debt through recourse to borrowing and a stringent fiscal adjustment.

ONGOING ADJUSTMENT: The government opted for a medium-term budget framework, which aimed to cut the deficit to 3% of GDP in 2017, 2.7% of GDP in 2018 and a balanced budget by 2020. The IMF projected that government revenues would remain flat, at 30.8% of GDP in 2015 and 30.9% of GDP by 2018. The bulk of the adjustment will come on the spending side, with expenditure expected to fall from 46.6% of GDP in 2015 to 37.3% in 2017 and 33.5% by 2018.

However, in October 2017 the government announced that after two years of falling expenditures, a 25% increase in state spending was planned for 2018, and it expected the budget deficit to stand at 9% of GDP for the year. The government said it had drafted amendments to the Money and Credit Law to allow the central bank to lend directly to the public Treasury for the first time to fund budget deficits and public debt, and provide resources for the National Investment Fund. According to international media reports, this type of funding will be implemented for five years and will be accompanied by structural reforms. The increase in spending is expected to finance delayed projects in sectors such as education, health and water, and help fund subsidies for housing and basic foodstuffs.

BOOSTING REVENUES: There is some help on the revenue side, with income from the hydrocarbons sector expected to rise from 10.4% of GDP in 2016 to 14.7% in 2017 on the back of increased production and a partial recovery in the oil price. In 2016 the authorities also increased the earnings ceiling to AD30m ($249,000) per annum for the single flat tax scheme, where the twin rates – 5% for the production or sale of goods and 12% for other activities – are applicable to sole traders and very small businesses. This expanded the number contributing by 17% to almost 1.5m in 2016 and raised earned revenue by 16% to AD27.7bn ($229.8m). Meanwhile, the upper and lower value-added tax (VAT) rates were each increased by two percentage points, to 9% and 19%, respectively, and taxes on tobacco and some luxury goods were increased in the 2017 budget. The IMF projects that tax revenues will increase from 14.2% of GDP in 2017 to surpass 15% by 2021.

DEEP IMPACT: Having spiked to an estimated 21% of GDP in 2016 as the government moved to recapitalise two state-owned enterprises, the national debt is expected to fall to 18.3% in 2017 before rising to 19.3% in 2018. However, this rapid adjustment is expected to come at the price of slower economic growth. According to the IMF, GDP expansion in the non-hydrocarbon sector is expected to slow to 0.3% in 2018 from 1.3% in 2017. However, increased spending on infrastructure in 2018 could boost growth in the longer term (see Transport chapter). For its part, the IMF has cautioned that the government could pursue a slower fiscal adjustment, coupled with more comprehensive structural reforms and a further devaluation of the dinar.
Seeking alternatives
Abderrahmane Raouya, Minister of Finance, on stimulating the economy and the diversification of financial products

How will alternative financing be introduced to the economy, and what will the advantages be?
RAOUYA: It will be introduced with three main objectives: bolstering state liquid assets, settling internal public debts and financing the National Investment Fund. The use of alternative financing will be backed by important structural reforms and will also allow the reimbursement of debts held by the Public Treasury. As a result, public creditors will be able to recover their financial capacity and strengthen their investment plans, which will stimulate economic activity.

The banking sector will also benefit from more liquidity as it will boost its investment capacity. A follow-up mechanism is planned to supervise the programme and prevent the risk of inflation. Such a measure will generate significant growth and improve every citizen's quality of life. It will also boost employment and allow public services, such as education and health, to function efficiently. Lastly, alternative financing prevents an increase of fiscal pressure and the use of foreign debt. In the long run, recurrent expenditure will be progressively covered by ordinary revenue in the country, and alternative financing will therefore be exclusively injected into public investment.

What new measures will be introduced through the promulgation of the 2018 Finance Law?
RAOUYA: The 2018 Finance Law will increase the capital investment budget by 76%, enabling the strengthening of basic infrastructure. The state also plans leverage focus on supporting economic activity through better interest rates and local project development in several sectors, such as housing, rail and road infrastructure, education, health and hydraulic projects. As for income, the base taxation rate will rise by 10%, a number that is dependent on the evolution of the economy and the efficiency of collection. The law will not affect the purchasing power of households or company activities. The only price adjustment will concern the tax on petrol, which will not have any impact on agriculture and fisheries thanks to dedicated support for these sectors.

The Finance Law also aims to stimulate the diversification of financial products to mobilise savings and sovereign bond issuances through Islamic financing. In that regard, efforts have been deployed to establish a legal framework for takaful (Islamic insurance). This is being finalised to boost the Algerian insurance market, answering growing demand from insurers wishing to deploy takaful and set up support for banks that aim to develop alternative banking products following recent trends in the international insurance sector.

What are the potential benefits of formalising the economy further, and how can this be achieved?
RAOUYA: First of all, integrating the informal sector is a priority for the government as it will improve the business environment, establish social and economic equity and enlarge the tax base. Additional incentives have recently been established, such as the simplification of administrative procedures for investments and the reduction of tax pressure through reconversion programmes that have a two-year tax exoneration, as well as decreasing taxes for three years. Furthermore, there has been an overhaul of the flat rate tax and an increase in its application; land access facilitation through tax allowances and banking credit bonuses; and an extension of the voluntary fiscal programme until December 31, 2017.

There will be harsher fines for labour law infractions achieved via permanent legislative measures and operational actions in relation to tax, banking and commercial activities. Tax control programmes will be strengthened and a new information system will be implemented to increase tax efficiency and allow remote procedures. The banking system will be enhanced to boost scriptural transactions, diversify product ranges and modernise payment systems. Lastly, commercial practices and distribution network controls will also be strengthened.
Collaborative vision

Abdelkader Zoukh, Wali of Algiers, on how smart city developments are advancing the province’s growth agenda

In what ways is the wilaya (province) of Algiers an attractive area for investors?

**ZOUKH:** On top of being both the political and economic heart of Algeria – hosting the headquarters of central administrations, major companies and diplomatic representations – the wilaya of Algiers possesses significant natural and infrastructural assets. It is a geostrategic hub that has the potential to promote further European-African trade. It also has young and qualified human potential, with 54% of the population aged below 35, and its active population representing 53% of the total. In addition, the region has agricultural potential in the Mitidja; an efficient transport network with a modern port and an airport undergoing expansion; reliable utility services; universities and talent; and great cultural wealth.

There are several large-scale projects under way in the wilaya, such as the Great Mosque of Algiers, two new sports stadiums, landscaping at El Harrach Oued and Algiers bay, housing rehabilitation plans, multiple agri-parks and the Sidi Abdallah Cyber Park, among others. All of these contribute to making the wilaya a better place to live and work, and moreover an ideal place to invest. The city of Algiers is also positioning itself as the cheapest metropolis in the Mediterranean basin, with impressive growth potential across sectors, including services and tourism, and industry – particularly pharmaceuticals and agri-business.

What are the main goals of the smart city project, and how are these being accomplished?

**ZOUKH:** The smart city project includes strategic objectives for the short, medium and long term. It aims to put in place a programme of data collection and applications for more efficient functioning of the city. We are in the process of selecting technology partners that are able to evolve the city through integrated solutions that optimise existing public assets. Integrating start-ups and being a catalyst for the development of a technological ecosystem are also priorities. We are looking to build an ecosystem between companies, universities and research laboratories through common strategic projects, such as transport regulation, energy optimisation, water management, security, disease prevention, urbanism and high-speed internet penetration.

In order to promote innovative growth, we are aiming to have a smart city that accelerates technological transfers. This would enable start-ups to test their ventures at a low cost, as well as allow easier access to clients and financing. The wilaya has already made efforts to foster a more collaborative and innovative business ecosystem. For instance, we are building a bridge between start-ups and local decision makers, which has enabled incubators and small firms to take part in missions abroad in Paris and London. Legal texts have been issued to answer the requests of entrepreneurs, such as the law drafted regarding e-payment use in Algeria – a long-standing demand from businessmen. Lastly, we have facilitated contracts between innovative start-ups and established companies. For example, agreements were signed between the start-up AquaSafe, a data collection platform that monitors the quality of water, and the Water and Improvement Society of Algiers. Another notable example is the partnership that was established between the start-up YASSIR, an Uber-like app, and Wassalni, a major player in the transport sector.
Targeting diversification

Efforts to lessen dependence on hydrocarbons are under way, with the government implementing reforms and developing new policy frameworks

The oil price-induced economic difficulties facing Algeria may prove to be a double-edged sword: although the added pressures are certain to slow the rate of improvement in living standards and have already begun to strain public finances, the new circumstances also provide a pressing incentive for the country to slowly wean itself off its hydrocarbons dependency.

While reform efforts have tended to move slowly in the country in the past, the IMF noted in its most recent Article IV Consultation, published in June 2017, that there is evidence of an uptick in the momentum of reforms. 

NATIONAL STRATEGY: In May 2014 the authorities adopted the nation’s latest five-year action plan for economic and social development, covering the 2015-19 period. While the government reshuffle after the May 2017 legislative elections may give implementation of the plan new impetus and focus, the key lines on guiding public investment and structural reform over the medium term remain. Structured in eight chapters covering the main areas of government activity, the plan has high-level goals and initiatives at the macro-economic and sector levels, foreshadowing reforms in the financial sector, tax administration, Customs, public-private partnerships (PPPs) and the investment regime, among others, as well as efforts to improve the business environment.

In response to the oil price crisis, the state unveiled a new growth model in July 2016. The vision outlines a plan to transform the economy by 2030, as well as a medium-term budgetary strategy for 2016 to 2019. Key objectives of the new framework include achieving a growth rate of 6.5% in non-hydrocarbons GDP over the decade to 2030, and doubling the manufacturing sector’s contribution to GDP, from 5.3% in 2015 to 10% by 2030. Building on these efforts, the IMF reported in its June 2017 Article IV Consultation, “The government is fleshing out a broad strategy to reshape the country’s growth model… with World Bank support.” The newly installed government is expected to bring forward more detailed reform proposals in due course.

“Hydrocarbons income has not only shaped the Algerian economy, but also the mindset of the society,” Amara Charaf-Eddine, CEO of MADAR Holding (previously SNTA Tobacco), told OBG. “We need a paradigm shift that covers numerous elements of our economy: labour, tax, trade policies, human resources development and the improvement of governance. Algeria has great potential to become one of the first foreign investment destinations. The administrative approach to investment shall disappear – a lot should change.”

COMBINED EFFORTS: In order to ensure that the necessary conditions and frameworks for efficient development are in place, a national economic and social pact for growth was signed in February 2014. Designed to provide a platform for dialogue surrounding the implementation of national strategies, the pact brings the government together with social and economic partners, including trade unions and business organisations. This will give diverse societal actors ownership of the plan, helping smooth implementation. The tripartite conference of the partners on September 23, 2017 in Ghardaïa focused on the acceleration of the economic transformation process.

DOING BUSINESS: In the World Bank’s “Doing Business 2018” rankings published at the end of October 2017, Algeria fell 10 places overall to 166th out of 190 countries. This was mainly due to a notable drop – from 77th to 146th place – in the dealing with construction permits category. The number of procedures required to obtain the permit rose from 17 to 19, while the time needed for the process increased by 16 days to 146. At 71st place, the country received its highest score in the resolving insolvency category. In light of import restrictions, it is hardly surprising that the country...
The revised investment law, together with the 2016 Finance Law, overhauled the legal framework applicable to investments in the country. This included removing the obligation for foreign investors to generate a foreign exchange surplus to the benefit of Algeria over the life of an investment.

However, it is worth noting that OBG’s inaugural Business Barometer: Algeria CEO Survey, conducted between March and October 2017, shows CEOs to be largely positive about the economy: most notably, more than two-thirds of CEOs said they were likely or very likely to make a significant capital investment in the coming 12 months, which shows a level of comfort with the local rules (see Business Barometer: Algeria CEO Survey). While the IMF projected GDP growth of 1.5% for 2017, 66% of respondents to OBG’s survey are confident about the economy and trust that the 3% milestone will be exceeded.

NEW INVESTMENT CODE: Adopted in July 2016, Algeria’s revised investment law – Law No. 16-09 – together with the 2016 Finance Law, overhauled the legal framework applicable to investments in the country. Notable changes included the removal of the requirement for foreign investors to generate a foreign exchange surplus to the benefit of Algeria over the life of any given investment. In practice, this meant that overseas investors were limited to the extent that profits on investment could be repatriated through dividends or asset sales. So as long as the initial equity investment requirement is respected, foreign investors are free to repatriate the proceeds of the investment, improving the attractiveness of the country as an investment destination and opening the capital account.

TAX REFORM: Efforts to streamline and simplify tax administration included “open days” run by the General Directorate of Taxes in May 2017, to better inform taxpayers of their responsibilities and allow them to raise any questions they had about their tax affairs. Article 90 of the 2017 Finance Law also stipulates a possible extension for firms unable to pay their full tax bill by the deadline, allowing for rescheduled payments within 36 months of the original deadline. In addition, the single flat tax system was expanded and simplified, allowing for payment in instalments.

CONSTRUCTION PERMITS: In April 2017 the government eliminated a number of documents from the dossier required to obtain a construction permit and reduced the number of copies of the dossier that needed to be provided. Concurrent with these updates, local governments were instructed to speed up the delivery of permits once applications are received. These changes have effectively streamlined the process, but efforts to further improve may be required.

The 2016 Finance Law also relaxed the restriction on foreign financing, which henceforth was to be
permission to conclude cooperation agreements with Customs duties. The reforms give the Customs Agency port, however, are exempt from value-added tax and be accessed by importers. Goods imported for re-export were more clearly defined in the new code. Other important elements of the Customs reform included better-targeted spot-checks of travellers and the introduction of a temporary admission region, whereby deposits are left with the Customs Agency for a six-month waiting period before they can be accessed by importers. Goods imported for re-export, however, are exempt from value-added tax and Customs duties. The reforms give the Customs Agency permission to conclude cooperation agreements with foreign Customs authorities, and stipulates that its agents are sworn to confidentiality even after they cease their employment as Customs officials.

NEW CUSTOMS CODE: In December 2016 the government unveiled a new draft Customs code to update Law No. 79-07, which had last been amended in 1998. Approved by Parliament in early 2017, the new code includes 10 elements aimed at modernising Customs administration and aligning Algerian practices with international conventions. The reform represents a key plank of the new growth model presented by the government in mid-2016. Of Algeria's system of Customs regimes, which aim to promote non-hydrocarbons investment and exports, those for cabotage and trans-shipment were more clearly defined in the new code. Other important elements of the Customs reform included better-targeted spot-checks of travellers and the introduction of a temporary admission region, whereby deposits are left with the Customs Agency for a six-month waiting period before they can be accessed by importers. Goods imported for re-export, however, are exempt from value-added tax and Customs duties. The reforms give the Customs Agency permission to conclude cooperation agreements with foreign investors.

FOREIGN OWNERSHIP: Since 2008 foreign firms have been prohibited from taking a majority stake in firms operating in Algeria. The law was not retroactive, so many firms operating in the country were granted an exemption. Nonetheless, this stipulation greatly reduced the attractiveness of Algeria as a target for mergers, acquisitions or other direct investments from abroad. Over the course of 2016 there was speculation that the restriction would be lifted as part of the passage of the new investment code. Instead, the restriction was not only left in place, but the 2016 Finance Law actually cemented the scope of the restriction, covering all foreign investment in sectors producing goods, providing services or procuring imports.

NEW CUSTOMS REGIME: Approved by Parliament in early 2017, the new code includes 10 elements aimed at modernising Customs administration and aligning Algerian practices with international conventions. The reform represents a key plank of the new growth model presented by the government in mid-2016. Of Algeria’s system of Customs regimes, which aim to promote non-hydrocarbons investment and exports, those for cabotage and trans-shipment were more clearly defined in the new code. Other important elements of the Customs reform included better-targeted spot-checks of travellers and the introduction of a temporary admission region, whereby deposits are left with the Customs Agency for a six-month waiting period before they can be accessed by importers. Goods imported for re-export, however, are exempt from value-added tax and Customs duties. The reforms give the Customs Agency permission to conclude cooperation agreements with foreign Customs authorities, and stipulates that its agents are swore to confidentiality even after they cease their employment as Customs officials.

DRAFT PPP LAW: In line with the Public Investment Programme 2015-19, a law on PPPs is currently under development, with a view to clarify the legal and institutional framework for such investments. A draft law was to be presented to the government for consideration in early 2017 by an inter-ministerial working group, but as of late-2017 it had yet to be enacted by Parliament. The government has also been engaging with the World Bank and the African Development Bank to align the new Algerian PPP framework with international best practices. It is clear from the government’s new growth model that PPPs are being prioritised as an important mechanism to support social and economic development, while also making more efficient use of scarce public resources.

As in many emerging markets, the government is increasingly turning to private financing to supplement public investment as a means of reducing the overall burden on state finances. Even before such a dedicated framework was in place, PPPs were being utilised in Algeria in the water, electricity and transport sectors, though much broader use of PPPs is expected in the future. The existing legal framework allows for concessions in the maritime and air transport sectors, but it is forbidden for foreign-controlled capital to have a majority interest in such projects. It is as yet unclear whether such restrictions will be removed in the new legal framework for PPPs, or how it might interact with the prevailing 49:51 policy proscribing foreign-majority control of new firms or investments in Algeria.

MORE PROGRESS TO COME: Despite recent headway, Algeria has a significant distance to travel before it can boast an operating environment on par with neighbouring countries. Moreover, while enacting reforms is challenging, their rigorous implementation is crucial and must remain a primary focus in the coming years.
Unlocking potential

Ali Haddad, President, Algerian Business Leaders’ Forum (Forum des Chefs d’Entreprises, FCE), on private sector needs and encouraging young entrepreneurs

How does the FCE help strengthen relations between local businesses and foreign companies?

HADDAD: By representing more than 6000 companies, FCE maintains a close relationship with several similar entities abroad, including the Movement of the Enterprises of France, the General Confederation of Italian Industry, the Spanish Confederation of Employers’ Organisations in Spain, the National Mauritanian Employer’s Union, the Libyan employers and the Ivory Coast Business Forum. Numerous meetings that were held with these associations showed a mutual wish to strengthen cooperation, enhance trade, identify investment opportunities, and develop economic relations and sustainable partnerships on both sides. These relationships allow Algerian companies to contact foreign ones directly, forming a solid basis for economic trade.

It is worth pointing out that several economic forums have been organised both in Algeria and abroad thanks to decision makers in private companies. In addition to its local network across the 48 wilayas (provinces) of Algeria, FCE has representatives in Berlin, Paris, London, Dublin, Moscow, Brussels and Luxembourg in Europe; Québec, Los Angeles and New York in North America; and Dubai in the Middle East, and other chapters that will be set up soon. A letter of mission has been sent to these representatives, to define and contextualise the framework of their interventions and to strengthen the synergies that FCE aims to build with its partners.

Delegates play a crucial intermediation role between Algerian companies and foreign counterparts, assisting those who wish to develop businesses in the country.

What were the main findings of the business barometer survey conducted by the FCE in 2017?

HADDAD: By travelling through the different wilayas of the country, we learned it would be necessary to draft an economic map of Algeria to better understand our capacities and export potential. The first finding was that, despite the efforts made by the government, numerous constraints still prevented the harmonious development of the private sector. Chief among the feedback from business people were grievances linked to bureaucracy, land and credit access.

The second finding was that there is great potential at the regional level, in sectors such as tourism, mining and agriculture. If investments were channelled into these specific sectors, this potential could be fulfilled and benefit the country’s wealth enormously. Many business people admitted they own sizeable sleeping savings that they would like to invest, but did not know where they could be invested. There is, therefore, available capital that could be given to local authorities within the framework of public-private partnerships. The economic mapping that is being drafted will actually allow for investments that could integrate regional value chains to be targeted.

How can more young people in Algeria be encouraged to enter the business world?

HADDAD: A survey was conducted by the members of Jill’FCE, the section dedicated to young entrepreneurs within the FCE, and the results highlighted several key areas, the first being financing. Young entrepreneurs agreed that the National Agency for Youth Employment programme would enable them to kick off their activities, but requested the provision of more support and higher financing guarantees. In that regard, agreements have been signed between banking institutions to set up guarantee mechanisms.

Another key area highlighted was about accessing markets. Although we always remind our members that access to markets remains reliant on their capacity to offer qualitative products to unlock business opportunities, it is true there is a need to negotiate with big decision makers to broaden their selection criteria. The last point concerned addressing the lack of entrepreneurial training. We advocate the creation of entrepreneurial specialities within Algerian universities.
Strength in numbers

Through increasingly supportive frameworks, small and medium-sized enterprises are driving non-oil growth

Small and medium-sized enterprises (SMEs) predominate among Algerian firms, forming the backbone of the private sector. At end-2016 Algeria’s 1m SMEs employed more than 2.5m people and engaged in some AD75bn ($622.1m) in bilateral trade. According to the Ministry of Industry, Algeria created an average of 60,000 SMEs per year in the 2012-15 period, and there is evidence that the pace of business creation is accelerating. There was a net increase of 88,100 SMEs in 2016 alone – up 9.4% on the 2015 figure – and a 7.2% rise in employment among SMEs. The government’s goal is to establish another 1m SMEs over the 2015-19 period.

Of the 1m SMEs in existence at the end of 2016, 56.3% were incorporated, while only a small minority of these – just 390 companies – were state-run. The remaining 43.7% were sole traders.

At 97.1%, the vast majority of Algeria’s SMEs are micro-enterprises, with less than 10 employees. There are only 3170 registered firms of medium size – those having between 50 and 249 employees – accounting for 0.31% of all SMEs. This “missing middle” phenomenon is shared with many other emerging markets, as is the issue of having a large informal economy.

GOVERNMENT SUPPORT: The government supports the SME sector by investing in private sector companies through the National Investment Development Agency. While 2016 saw a 9.6% reduction to 7185 in the number of such investments, the amount invested increased by 24.8% to AD1.8trn ($14.9bn), and the number of jobs supported by these firms grew by 9.1% to 164,000.

In 2011 the authorities launched a national programme worth AD380bn ($3.2bn) to revamp the country’s SME sector, with a target of more than tripling the number of SMEs from just over 600,000 to approximately 2m by 2025. Although this programme benefitted more than 20,000 SMEs across multiple sectors, it was judged in many quarters to be falling short of its objectives. With this in mind, the government stepped up its efforts to stimulate the SME sector in 2017.

NEW LAW: On January 10, 2017 Law No. 17-02 on the development of SMEs was adopted. The new legislation aims to encourage the establishment of new SMEs, and to improve both their competitiveness and export capacity. The law also provides for the creation of a coordination council, which brings together the specialist and representative organisations relevant to Algerian SMEs. This council was formally launched on August 1, 2017.

Lastly, the law foresees the establishment of two funds to support the development of SMEs, including the Algerian Credit Guarantee Fund and a seed capital fund. The latter helps finance costs related to the development of product prototypes, such as business plans, research and development.

ACCESS TO FINANCE: These funds should help ease one of the most binding constraints on small businesses in Algeria. In the World Bank’s “Doing Business 2018” report, Algeria ranked 177th out of 190 countries for getting credit, down two places on its 2017 score. This was Algeria’s second-lowest position in any category, and below its overall ranking of 166th.

While accessing finance has always been an obstacle for Algerian SMEs, the drying up of excess liquidity in the banking sector has made it more challenging and costly (see Banking chapter). The SME compartment of the local stock market has been open since 2012, but has yet to see its first listing. This could become a viable alternative source of financing for some larger, high-potential SMEs, thereby contributing to the development of the country’s capital markets and economy at large (see Capital Markets chapter). It is hoped that when the governance and financing framework envisaged under Law No. 17-02 is fully up and running, this limited access to finance and other challenges currently facing Algerian SMEs can be tackled more effectively.

In 2016 the number of small and medium-sized enterprises increased by 88,100, or 9.4%
Business Barometer: Algeria CEO Survey

The private sector in Algeria has certainly gained a foothold in the last two decades, despite it still facing limitations, such as those on imports, that affect its performance. But the results of OBG’s inaugural Business Barometer: Algeria CEO Survey show CEOs to be largely positive about the state of the economy: most notably, over two-thirds of CEOs said they were likely or very likely to make a significant capital investment, which shows a level of comfort with the rules of the game – and hopefully is also a larger bet on diversification.

Beyond changes in commodity prices, which external event could impact Algeria's economy the most in the short to medium term?

- Rise in oil prices: 6%
- Trade protectionism: 18%
- Increased instability in neighbouring countries: 6%
- Trump administration: 4%
- Other: 66%

What are your expectations of local business conditions in the coming 12 months?

- Very positive: 55%
- Positive: 18%
- Neutral: 20%
- Negative: 1%
- Very negative: 6%

What type of skill is in greatest need in Algeria?

- Leadership: 40%
- Business admin: 30%
- Engineering: 20%
- Customer service: 10%
- R&D: 10%
- Sales: 10%
- Computer tech: 10%
- Other/education: 1%
- Do not know or N/A: 1%

How likely is it that your company will make a significant capital investment within the next 12 months?

- Very likely: 66%
- Likely: 18%
- Unlikely: 6%
- Very unlikely: 4%
- Do not know or N/A: 6%

Queries regarding the OBG Business Barometer can be directed to: ceosurveys@oxfordbusinessgroup.com
Leading role

Samira Hadj Djilani, President, Réseau Algérien des Femmes d’Affaires (RAFA), on the power of women in the economy

To what extent are women in Algeria involved in the country’s political system and governance?

HADJ DJILANI: Historically, Algerian women have participated actively in the liberation of their country, as much as their male counterparts, and this generation of strong women has also greatly impacted society. For example, women in Algeria have always been a part of the constituent assembly, and now there are 143 female members of Parliament. Initiated by President Abdelaziz Bouteflika, there is a whole set of laws that guarantee women’s rights, and notably the Constitution enforces that at least 30% of election participation lists be made up of female candidates.

Additionally, in February 2016 a new law enforced full parity at every level of the administration governance. Nonetheless, there is still a huge gap between the promulgation of laws and their application in society. It is a pity, because if we look at success rates at the university level, women are leading in every academic field. I truly believe that the country would benefit from more female participation in its governance. There is the political will to make things evolve, but there is also an inertia that we need to break.

How would you assess the extent of women’s involvement in the business world?

HADJ DJILANI: The participation of women in the Algerian economy remains modest. Female entrepreneurship really started alongside the creation of the National Youth Employment Support Agency (l’Agence Nationale de Soutien à l’Emploi des Jeunes, ANSEJ). Female-owned businesses are still in the minority, but many women have used the help of this agency to get started. Among the 360,000 businesses that have been helped by ANSEJ in the last 10 years, 10% were created by women. This is still a small share, but we are speaking with more female students at university about their entrepreneurial options. Algeria is currently in a crisis, and many young people cannot get a job. Our programme should boost ventures and create opportunities for women who cannot find work in more traditional areas of employment.

Do women face discrimination when operating within the Algerian economic system?

HADJ DJILANI: There are some inequalities, especially when it comes to accessing the banking system. It is a complicated process for a woman to obtain a business loan. We try to raise awareness of this issue by petitioning for banks to allocate a specific desk for women. Similarly, access to public tender is very limited for women, despite the law that is supposed to grant them 30%. In order to be more powerful, women in Algeria need to come together to defend their rights to be entrepreneurs, and to participate in the economy according to their skills and work capacity.

There should be no positive discrimination, we do not want to win public tenders just because we are women, but similarly, we do not want to be blocked because of our gender either. In Algeria 95% of companies owned by women are micro-enterprises; we want these companies to grow, but it’s impossible if we forbid them access to public markets, especially in a country where the public sector represents such an important part of the economy.

How would the country benefit from higher levels of female participation in the economy?

HADJ DJILANI: In the modern world, women’s significant participation in the economy and society is seen as a sign of a developed nation, and global institutions and experts evaluate this parameter when assessing the sustainability of an economy. In addition, the inclusion of women can multiply business opportunities. Women are increasingly participating in Algeria’s economy, as a support network is forged with female entrepreneurs from Canada, Tunisia and the US, to help guide Algerian businesswomen in their development and growth.
LARGE RISKS LEADER

Since its implementation in 2000, CASH assurances is the leader of large risks insurance on the Algerian market. It currently holds a diversified portfolio, composed of several sectors of activity. CASH assurances is a company with public sector capital, licensed to practice all branches of damage insurance.
Financial Services

Digital banking helps bridge financial inclusion gaps
Foreign-majority shareholding restrictions remain
Capital market looks to list new firms and products
Life and Islamic insurance hold considerable potential
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**Imminent changes**

Financial system anticipates privatisation, new products and regulatory improvements

Algeria’s banking sector has held up relatively well despite recent macroeconomic weakness. Credit growth remained in positive territory through the first three quarters of 2017, albeit having slowed from the double-digit rates seen prior to 2016. Lenders are capitalised well in excess of Basel III norms, while profitability remains high, particularly among private sector banks. However, a sharp reduction in liquidity has been one of the biggest challenges facing Algerian banks in recent times, with reserves, deposits and liquid assets all on the wane and, as a result, interest rates on the rise. Long seen as a closed system dominated by state-run banks and characterised by moderately unsophisticated products and technology, there are signs that the sector could be on the cusp of profound change. E-payments were introduced for the first time in late 2016, and if mobile banking is introduced in 2018 as expected, the impact could be significant in terms of boosting financial inclusion, as has happened in many other African markets. Meanwhile, Islamic banking services are on the brink of going mainstream, with the big six state-run banks committing to launch such offerings by early 2018.

Although precise plans have not yet been put in place, there are signals from the authorities that they are considering opening up the banking sector to more private sector and foreign competition, notably through the relaxation of the restriction on foreign ownership of majority stakes in local banks. Additionally, there have long been vague plans to privatise one or more of the state-run banks – including through listing on the local stock exchange – but fiscal pressures currently facing the government mean that this could move closer to reality by early 2018.

**PUBLIC BANKS:** The six government-run banks continue to dominate the sector, accounting for 88.3% of the market in 2015 and holding a similar share of the sector’s total assets of AD12.9trn (€106.8bn) at the end of 2016. Of these, Banque Nationale d’Algérie (BNA) is the largest, with some AD2.8trn (€23.6bn) in assets in 2016, followed by Banque Extérieure d’Algérie (BEA) with AD2.6trn (€21.3bn) worth of assets, according to the latest financial statements available. Although it has diversified its interests in recent years, BEA remains the bank of Sonatrach, the national oil company. In third place, Banque de Développement Local (BDL) posted assets of AD846.9bn (€7bn) in 2016. The other state banks are Banque de l’Agriculture et du Développement Rural, Crédit Populaire d’Algérie (CPA) and Caisse Nationale d’Epargne et de Prévoyance (CNEP). These state banks are the main financiers of public and private investment, including the operations of state-owned enterprises (SOEs).

**PRIVATE PLAYERS:** Private banks held the remaining 11.7% of sector assets in 2015. The local subsidiaries of France’s BNP Paribas, having been established in 2002, and Société Générale, which began operating in Algeria in 1987, are the leading private players. These two banks accounted for AD248.9bn (€2.1bn) and AD297.1bn (€2.5bn) of assets, respectively, in 2016. Bahrain-headquartered Al Baraka Bank, with $1.9bn in assets in 2016, has operated in Algeria since 1991 and is the country’s leading provider of Islamic banking products. Gulf Bank Algeria also has a major market presence, but its parent company, Burgan Bank of Kuwait, does not report country-by-country financial results. There are 14 foreign-owned private banks in total, composed of 10 subsidiaries, three branches of international banks and one joint venture.

Partly due to formal restrictions on the financing of SOEs, as well as continued reluctance among SOE executives to engage them, the private banks mainly focus on the private sector, and the external sector in particular. Together, they account for a share in excess of 50% of the trade finance segment, for example. According to the central bank – the Bank of Algeria – assets across the sector reached AD13.5trn (€112bn) as of June 2017, up 8.7% over the same month of 2016.
FOOTPRINT: The branch networks of Algerian banks are not as dense as in neighbouring countries – counting one per 25,660 inhabitants, compared to 1:7437 in Tunisia, for instance. In total, there were 1469 branches in 2015, of which 1123 (77%) belonged to public banks and the remaining 346 to private entities, according to a report on the sector by Rachid Sekak, senior consultant at BRS Consultants. While public lenders are represented across the country, the private banks’ networks are largely concentrated in the urban conglomerations in the north of the country. Of the private sector banks, those with the largest branch networks were Société Générale with 87 branches, BNP Paribas with 71 and Gulf Bank Algeria with 63.

Algeria’s two largest banks figured among the top-ranked banks in Africa for 2016, with BNA in 13th place in terms of assets, closely followed by BEA in 14th, according to annual rankings by Jeune Afrique magazine. Both were down one place on 2015.

PRIVatisation PIPELINE: Amid fiscal pressure from weak oil prices and a reform agenda to diversify the economy while promoting private sector development, the authorities are understood to be readying one or more of the state-run banks for privatisation. This is not the first time the government has considered bank privatisations; it reached an advanced stage of preparations for the sale of a majority stake in CPA in 2007 before abandoning the exercise, citing the brewing global financial crisis. In order for future privatisations to move forward smoothly, however, industry players have identified the need for more stringent procedures regarding non-performing loans (NPLs) at state-owned banks. In addition, the undertaking and publishing of stress test results by the central bank would enhance the attractiveness for investors considering these privatisations.

In 2013 CPA was included on a list of eight public enterprises that would be considered for privatisation by way of flotation. In addition to CPA, CNEP and BEA are also seen by analysts to be among the entities ripe for privatisation, likely by way of a stock market listing. While the flotation of Biopharm in 2016 was viewed as a success, the subsequent abandonment of the listing of Société des Ciments de Aïn El Kébira has since curbed enthusiasm for similar developments (see Capital Markets overview).

FOREIGN RESTRICTIONS: In 2009 the government introduced restrictions on foreign investors holding majority stakes in Algerian businesses, including banks. Since the move was not retroactive, it did not impact banks already operating in the country, but it has constrained new investors entering the market. As part of broader efforts to reform the economy, this limit was removed in 2017 for all business sectors not deemed strategic. Despite the authorities having signalled in late 2016 that the restriction may be relaxed for banks, it appeared by mid-2017 that this would not be the case, since the strategic energy and financial sectors remained subject to the same 49% limitation according to the latest draft of the law in June. “In order to face the crisis, the 2018 Finance Law should aim to give more freedom to economic actors, increase the level of transparency among companies and institutions, and rethink the tax system,” Mohammed Tifour, general manager at FransaBank, told OBG. “It will enable banks and financial institutions to participate in a larger fashion to the national economy.”

While privatisations of state-run banks could still take place with the restriction in force, they are unlikely to be attractive acquisition prospects for foreign investors without the possibility of securing a majority stake. Whether by initial public offering or trade sale, the opening up of Algeria’s banking sector to greater private and foreign ownership in the medium term could be a big game-changer, both for the sector itself, and in terms of its contribution to broader economic development.

REGULATORY FRAMEWORK: While the Ministry of Finance is a key player in the sector, being the majority shareholder in the six state-run banks that dominate it, regulatory responsibilities fall to the Bank of Algeria. The bank determines which financial institutions can do business in Algeria and under what conditions. It also sets the limits for the capitalisation and liquidity ratios under which banks operate, and is responsible for ensuring that norms are respected. The Parliament also plays a critical role as the ultimate arbiter – deciding the fate of the restriction on foreign investors holding majority stakes in local banks, for instance.

Algeria’s banks already operate according to Basel II standards, and are transitioning to the more stringent, risk-based norms of Basel III. In its 2017 Article IV review, however, the IMF urged the authorities to “accelerate the transition to a risk-based supervisory framework, enhance the role of macroprudential policy, strengthen the governance of public banks and develop a crisis resolution framework.” The fund points to heightened risks arising from the oil price shock, manifesting themselves in reduced liquidity, higher interest rates and elevated default risk.
BANKING OVERVIEW

One or more of the state-run banks may be readying for privatisation

CAPITALISATION: Having trended lower over the five years to 2014 among public and private sector banks alike, capital adequacy ratios have since improved significantly at public banks, while continuing a gentle decline among private banks.

Although the public banks continue to operate with lower capital buffers than their private sector counterparts, the levels in both cases are still relatively high. Tier-1 capital adequacy across the banking sector bottomed out at 13.3% of risk-weighted assets in 2014 before improving to 15.9% in 2015 and rising further to 16.4% in 2016. This was driven by the recapitalisation of public banks, which saw their Tier-1 ratio increase from a low of 11.7% in 2014 to reach 15.6% in 2016. Private sector banks, meanwhile, having operated with Tier-1 buffers greater than 30% towards the end of the last decade, have seen a steady decline to 19.7% by 2016. In any case, these ratios at public and private banks remain comfortably above Basel III norms.

PROFITABILITY: Although Algeria’s banks have traditionally been profitable, and they remain so in comparison to their peers in other countries, the more challenging conditions have led to an erosion of profitability since 2014. According to the IMF, the return on assets (ROA) across the banking system remained relatively high, at 1.9% in 2016, having been stable around this level for a number of years. However, this masks a deterioration in the performance of private banks, whose average ROA slipped from 4.6% in 2012 to 2.8% by 2016, albeit still considerably higher than the 1.8% ROA that was recorded by the government-owned banks that year. “Regulatory restrictions have curbed the ability of the private banks to achieve the same high margins and commissions that they were previously able to achieve in the active trade finance segment. This has hurt their profitability in recent years,” BRS Consultants’ Sekak told OBG.

Because public banks operate with smaller capital buffers, their return on equity (ROE) was higher than those in the private sector – at 20.8% and 15.1%, respectively – despite the higher ROA of the latter. Public and private sector banks’ ROE have declined from 25.1% and 19.6%, respectively, since 2014.

Rising interest rates have seen the net interest margin improve from 66.8% of gross revenues across all banks in 2015 to 72.4% in 2016. There was a particularly strong improvement among public sector banks – from 65.8% to 72.1% over the same period – seeing a convergence towards private banks, which rose from 71.5% to 73.4%. Public banks have been more efficient in keeping non-interest expenses down as a share of earnings before tax: from 31.6% in 2010, public entities had reduced this to 25.4% by 2016. From a similar starting point of 31% in 2010, private sector banks have gone in the other direction, with non-interest expenses reaching 38.2% of pre-tax earnings by 2016.

CREDIT GROWTH: Having recorded a strong double-digit increase of 11.3% in 2015, the IMF estimates that credit growth is on course to slow, from 9.8% in 2016 to 6% in 2017 and down to 2% in 2018. This
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slowdown is the result of both supply and demand factors. More stringent control of liquidity and lending by the central bank means that banks are not in a position to play their full traditional role as principal financiers of economic growth. Meanwhile, the slowdown in GDP growth – expected to come in at 0.76% in 2018, according to the latest IMF estimates – means that demand for credit is also on the wane.

In an effort to bolster demand and support industrial development, at the end of 2015 the government eased restrictions on consumer lending and auto loans that were originally introduced in 2009 as a way to prevent households from becoming over-indebted. Lending caps were lifted on seven categories of goods produced or assembled domestically – such as vehicles and a number of electronic products – which are now eligible for loans ranging from three months to five years. “The current environment is positive for local and well-established manufacturers. Consumer demand will only naturally increase,” Elie Maroun El Asmar, CEO of HSBC Algeria, told OBG. “Hopefully this will be an incentive for entrepreneurs to reinvest their profits to expand their businesses and an invitation for local investors to venture into production.”

In 2009 the government required all importers to use documentary credits as a way to control and reduce the level of imports. “Banks were allowed to issue documentary credits up to four times their capital, but this multiple was reduced to two times in 2014 and halved to one times capital in 2015,” Sekak told OBG. These restrictions have proved particularly onerous for the private banks, which are over-represented in the trade finance segment.

Outstanding credit across the sector has more than doubled over the past six years, from AD3.7trn (€30.7bn) in 2011 to AD8.5trn (€70.5bn) in June 2017. Lending to the public and private spheres has largely moved in tandem, and by the end of 2016 the figure was almost evenly split: AD3.97trn (€32.9bn) to the public sector (including local government) and AD4.41trn (€36.5bn) to the private sector. Beyond 2018 the IMF expects credit growth to accelerate in line with the economy – which is due to recover – reaching high single-digits from 2020 onward.

INTEREST RATES & LIQUIDITY: According to the IMF, the recent shortage of liquidity has meant that some banks have had to borrow from the central bank or other sector players through the interbank market, and the excess reserves commercial banks had previously held at the central bank have largely dried up. Until it was reduced to 3.5% in September 2016, the central bank’s discount rate had been remarkably stable, at 4% since March 2004. By contrast, the combination of reduced supply and continued demand for borrowing by banks has led to higher interbank rates: the day-to-day rate climbed from 0.34% at the end of 2015 to 2.88% at the end of 2016, and remained elevated at 2.30% in June 2017. Moreover, while the average monthly interbank rate has fluctuated between 0.52% and 2.20% from December 2015 to December 2016, it jumped from 0.93% to 2.53% in May 2017.

For many years, the banking sector had an abundance of liquidity, with liquid assets comprising over half of all assets as recently as 2011. This meant funding was readily available to public and private businesses on relatively attractive terms. However, the oil price decline has seen a similar reduction in liquidity; as a result, liquid assets fell from 38% of the total in 2014 to 27.2% in 2015, before rising slightly to 27.5% in 2016. This improvement was entirely driven by augmented liquidity at public banks, since the proportion of liquid assets at private banks continued to fall, from 35.9% in 2015 to 28.1% in 2016. The central bank has moved to ease the liquidity crunch by reducing the reserve requirement from 12% to 8% in April 2016 and reopening the discount window – where banks can swap eligible bonds for cash – in March 2016.

DEPOSITS: Reduced liquidity has seen declining deposits, with demand deposits falling from a high of AD5.9trn (€48.9bn) in 2014 to AD5.1trn (€42.3bn) in 2015 and AD4.9trn (€41bn) in 2016. The central bank also reduced the obligatory reserves requirement in August 2017 from 8% to 4%. Meanwhile, term deposits increased 8.8% to reach AD4.44trn (€36.8bn) in 2015. They then declined slightly to AD4.41trn (€36.5bn) by end-2016. The combination of strong credit growth and stagnant or declining deposits has seen the loan-to-deposit ratio rise from 50.6% in 2011 to 84.6% in 2016. This may have bottomed out, however, as both the stock of demand and term deposits rose during the first half of 2017, to AD5.2trn (€43.1bn) and AD4.6trn (€38.1bn), respectively.

NON-PERFORMING LOANS: Having improved steadily in previous years, the rate of NPLs spiked in 2016, hitting 11.4% from 9.8% a year earlier. The IMF partly attributed this to delayed payments by the government to its suppliers, but noted the banks have a high level of provisioning (55.4%) in place. This aggregate figure also masks a divergence between public and private banks. Totalling 23.6% of all loans from public
Interaction with banks through physical branches is still very popular. Between 2011 and 2014 the share of the population that used ATMs as their principal mode of cash withdrawal fell from 14.2% to 10.3%.

Commercial bank assets, 2012-H1 2017 (AD bn)

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<th>Year</th>
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Source: BoA

To reach a better flexibility in treating transactions and credit requests, as well as enhancing the efficiency of export operations, several Algerian public banks – such as BDL, BNA and BEA – have been investing in new information systems. “The next revolution for the Algerian banking system is to work with high technical information systems that allow banks to keep real time control of their operations and offer an advanced banking experience to customers”, Mohamed Krim, CEO of BDL, told OBG.

**LEASING:** Although Islamic banking institutions have been in Algeria for decades, sharia-compliant financial products only began to enter the mainstream market in 2017. Leasing has been growing strongly for a number of years, partly because some products are considered consistent with the Islamic faith. The segment is made up of six specialty providers and seven banks that provide leasing products. The two leading specialists are Maghreb Leasing Algérie and the Arab Leasing Company, while Société Générale and BNP Paribas are the best-placed banks.

Having tripled in size in the seven years to 2014, the leasing market stagnated in 2015 and declined by 12.1% to AD40bn (€331.8m) in 2016 as economic conditions deteriorated. However, things are looking up. “Activity during the first half of 2017 suggested full-year activity could come in at AD55bn-60bn (€456.2m-497.7m), which would result in annual growth of up to 50%,” El Amine Senouci, director at Maghreb Leasing Algérie, told OBG. “There is huge growth potential in leasing because the market is far from reaching saturation. Leasing accounts for less than 1% of total credit, which is not as developed as in Morocco and Tunisia, for example.” However, another economic crisis could reduce investment, which would hit leasing activity, he noted.

**OUTLOOK:** While Algeria’s banks remain profitable, 2018 is likely to prove challenging. With economic growth set to slow to below 1%, NPLs can be expected to creep upward, undermining asset quality. Given that they have smaller capital buffers, are experiencing more rapid increases in NPLs and will be more negatively affected by fiscal austerity, public banks are faced with having to raise additional capital in the medium term. The onus is also on sector authorities to transition to a more robust regulatory framework in line with IMF recommendations to prevent financial instability arising from economic weakness. Under the Basel III framework and its net stable funding ratio, banks will assess long-term capital expenditure loans in line with IMF recommendations to prevent financial instability arising from economic weakness. Under the Basel III framework and its net stable funding ratio, banks will assess long-term capital expenditure loans more carefully, given their impact on liquidity ratios.

Overall, the longer term outlook for the banking sector is bright, with credit expected to pick up with economic growth from 2019. The possible privatisation of state-run banks, coupled with the prospect of an end to the 49% limit on foreign shareholdings, could represent an attractive entry opportunity for foreign investors. Meanwhile, increased utilisation of digital and Islamic banking products represents organic growth opportunities, and may herald a shift away from the prevailing cash preference in society.

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The path of stability

Mohamed Loukal, Governor, Bank of Algeria (BoA), on the role of banks in financing the economy and boosting diversification

Since the oil price drop in 2014, Algeria has faced the challenge of maintaining the essentials of its economic and social systems in the context of drying liquidity. Our strategy is to boost resilience against external shocks, with a key focus of 2017 being to stabilise the Algerian dinar. A flexible currency rate has enabled us to absorb the shock of the oil price drop. In July the country’s central bank, BoA, devalued the dinar by 20% against the US dollar, which remains our first line of defence. This measure was in line with prior actions taken, such as the Revenue Regulation Fund financing the deficits of 2014, 2015 and part of 2016, or the foreign exchange accumulation reserves, which are still above $100bn as of November 2017, and the accumulated foreign exchange reserves, which are still at a comfortable level.

Regarding the role of banks in financing the economy, we note that their capacities remain strong, with credit growth in 2017 staying at around 10%. The BoA has continuously supported this trend by reducing mandatory thresholds, suspending liquidity injection operations when necessary, as well as maintaining obligatory reserve rates. In addition, we are working on reactivating refinancing instruments through the rediscount rate, open market operations and marginal lending facility instruments that ensure monitoring of effective interest rates and liquidity management.

Non-conventional financing, which was born as a project in mid-November 2017, will enable the state to maintain its objectives in terms of infrastructure investments, social transfers and public services without borrowing capital from foreign financing markets. This will benefit from a very strict framework in order for the Treasury to finance both its debt and deficit without generating inflation. The Ministry of Finance (MoF) and the BoA own the tools to master any inflationary drift, and the two entities will use all the tools available to prevent any inflationary pressures to materialise.

Technically, the BoA will be able to grant bank overdrafts to the Treasury for a length of up to 240 days, consecutive or otherwise. These will be granted through a management commission that is fixed in agreement with the MoF. In addition, the BoA can grant the Treasury an exceptional advance to manage its external public debt of $3.96bn. A convention between the BoA, the Public Treasury, the Council on Money and Credit, and the president of the republic was responsible for devising the conditions for the use of these tools. In that regard, we issued significant modernisation measures in late 2017 to provide the currency inter-banking market with innovative risk coverage tools. To this end, important steps have been taken, including further developing the inter-bank currency market through the introduction of a forward segment.

As we work on these adjustments, our main objective remains to boost economic diversification. Strengthening tax revenue flows, rationalising public spending and gradually introducing structural reforms to ensure sustained and inclusive growth are at the top of the government’s agenda. The BoA is taking an active part in this process. To this end, we issued significant modernisation measures in late 2017 to provide the interbank currency market with innovative risk management tools.

Within a floating exchange rate system, these adjustments will offer economic operators and investors the opportunity to prevent risk to exchange rates in cases of transactions that involve both foreign currencies and the dinar. It will also enable licensed intermediaries to collect deposits in foreign currencies from customers and grant them loans in foreign currencies as well. In order to better control the balancing act between imports and internal demand while limiting overbilling, the BoA will request that importers proceed with banking domiciliation to better allocate foreign currency resources to import needs. Moving ahead, the BoA is strengthening its monetary policy to support growth, especially in non-hydrocarbon sectors and private market services, while at the same time fulfilling its mission of preserving both prices and public finances stabilities.
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Modern money

The rollout of the first e-payment service is reshaping the sector

Internet and mobile banking in Algeria are still in the early stages of development, but market observers see these technologies as having great potential to improve financial inclusion if the relevant legal, regulatory and logistical frameworks are put in place.

**E-PAYMENTS:** In October 2016, 11 banks and nine companies participated in the launch of Algeria’s first e-payment service. In addition to the six public banks, five private banks participated: Trust Bank, Natixis, Société Générale, Gulf Bank and Al Baraka. These were joined by a range of public and private firms, including Air Algérie, Algérie Télécom, Mobilis, Société des Eaux et de l’Assainissement d’Alger, Djezzy, Ooredoo and Amana Assurances. Anyone with an account at one of the participating banks could request that their bank card be set up to make electronic payments. By the end of December 2016 some 5000 e-payment transactions had been carried out and the service had accumulated around 930,000 subscribers.

Since the launch, the number of firms taking part has risen. Sonelgaz, the state-owned power company, signed partnerships with a number of participating banks in March 2017 to facilitate electronic payments, while others, including Naftal and Entreprise Métro d’Alger, also joined the system in 2017.

The next phase of development was the rollout of e-payment terminals across the country. In June 2017 the government announced that 50,000 terminals would be distributed through Algérie Poste by the end of September 2017. To further cooperation in this area, it was announced in May 2017 that a number of banks and industry associations would establish an e-banking entity named Filiale Interbancaire Monétique in June. The new addition joins the Société d’Automatisation des Transactions Interbancaires et de Monétique, founded in 1995, and GIE Monétique, founded in 2014. The collaborative entity will be dedicated to the commercialisation and distribution of electronic payment terminals in businesses across the country.

**MOBILE BANKING:** With the formation of the new government in 2017, authorities set out detailed plans for the launch of a mobile payments system. Many factors will contribute to its success. “Mobile banking has the potential to greatly improve financial inclusion by increasing the proportion of the population that is ‘banked’, but there are three fundamental issues that need to be addressed for this to happen,” Rachid Sekak, senior consultant at BRS Consultants, told OBG. “First, there needs to be a mechanism for establishing the identity of people using the service; second, a protocol needs to be developed to ensure that financial institutions can access the telecoms networks; and lastly, more needs to be done to ensure data protection so consumers can have confidence in the system.”

**E-COMMERCE:** With e-payments having been only recently introduced and mobile payments not expected until 2018 at the earliest, it is perhaps unsurprising that e-commerce has yet to take off. Nonetheless, some are already looking to tap this source of potential growth. Jumia (Africa Internet Group) of Nigeria became one of the first movers in Algerian e-commerce when it arrived in 2014, establishing its Kaymu platform as a domestic competitor to eBay. By 2016 business was starting to pick up, with 500,000 site visits per month and rising.

Still, regulation for the activity is lacking. “As yet, e-commerce does not have a dedicated legal framework, but this is set to change,” Sofiane Djebaili, commercial director at Al Salam Bank Algeria, told OBG. “Parliament is already debating the issue, and we hope to see an e-commerce law enacted sometime in 2018.”

Beyond regulatory initiatives, sustaining success in the more broad-based efforts to increase internet penetration will be critical to support the growing use of e-commerce. The continued roll out of e-payment services to businesses – including through the distribution of dedicated terminals – is a crucial building block for the introduction of mobile banking and the development of digital banking in Algeria overall.

Some 20 banks and companies participated in the launch of Algeria’s first e-payment service in October 2016, with 5000 transactions completed by the end of that year.

**50,000 e-payment terminals were to be distributed across the country by the end of the third quarter of 2017**
To the letter

Nafa Abrous, CEO, Maghreb Leasing Algérie, on the advantages of leasing and avenues for future growth

What role has leasing historically played?

**ABROUS:** Leasing is the forgotten segment of the domestic financing services industry. It represents less than 1% of the total banking system, while in Tunisia or Morocco this represents up to 20%. The segment is still emerging, with only two private players leading the market, and four subsidiaries of public banks. Awareness about leasing among small and medium-sized enterprises (SMEs) is very low, although it offers competitive advantages, allowing firms to grow their business more than they could with traditional financing solutions.

This hinders general economic growth, especially when the government is pushing for the emergence of a subcontracting industrial ecosystem while simultaneously stepping away from hydrocarbon-only exports. With lower oil prices, the economy needs dynamic SMEs, and leasing is the perfect way to boost this trend.

What are the advantages of lease purchase agreements in comparison to other financing means?

**ABROUS:** It is easier to borrow from a leasing company than a bank. Businesses do not always have huge financing needs: many clients of leasing institutions are small entities with capital of €1000 or less. This lack of critical mass is unappealing for conventional banks, which, at a time of draining liquidities, primarily focus on low-risk projects. Another obstacle is that a large share of SME financing comes from the informal sector.

Leasing companies offer a huge comparative advantage in terms of their speed in dealing with requests. With a bank, this can take up to six months, while most dynamic leasing companies are able to give an answer to the client in four days. Sharia compliance has also been a major reason for its emergence in the country.

Which sectors have the greatest potential as a source of income for leasing companies?

**ABROUS:** The health sector is currently doing very well in Algeria. Doctors, pharmacists, private clinics and medical professionals are all looking to acquire new equipment through financing. The real estate segment is also solid, as it enjoys a low risk factor: the value of immovable property in Algeria has been increasing by an average of 20% every year. Health and real estate will be key supporters of general economic growth. The automotive segment, which used to be an important source of income for leasing firms before the import-quota-induced slowdown, should also return to growth in 2018, thanks to major manufacturers such as Renault, Hyundai and Volkswagen entering the country.

Largely driven by a will to diversify, SMEs seek to export and import products using financing from leasing companies, on the condition that they can rely on a complete offer of tailor-made services, including insurance, transit and Customs process clearance.

How could the stock market come to play a bigger role in the economy in general?

**ABROUS:** The stock exchange emerged to meet demand from the business community, and thus it should be driven by the private sector. One could boost the market by attracting investment funds. These offer two main advantages: they inject liquidity into the economy and they bring management processes that improve general transparency of the financing system. The domestic development of these funds is a prerequisite for the emergence of a dynamic stock market.

We must also open up the stock exchange to foreign investments, which are more likely to boost trade than public companies. This could also happen through a secondary market to enhance levels of capitalisation. In almost every other country, when someone has liquid assets, their bank offers to place it either on the stock market or in sovereign bonds. That trend needs to develop in the business culture here. Furthermore, opening a few well-performing public companies to private investors would provide a positive example for others to follow and potentially create a virtuous circle.
Religious rules

Sharia-compliant finance works to make its presence felt in a traditionally underserved market

The shadow of Algeria's civil conflict in the 1990s and the authorities' subsequent reluctance to be seen as empowering political Islam has delayed domestic growth in sharia-compliant finance. Further, the economic slowdown brought on by weak oil prices has been a big factor behind the drying up of liquidity in the banking system. In turn, this has encouraged the government to explore alternative sources of funding, both for the banking system and its own operations. Much of Algeria's commercial transactions continue to take place outside the formal banking system, not least because of the cultural preference of the majority-Muslim population to conduct business in cash and avoid financial products contrary to their faith.

Thus, there is significant untapped potential for the provision of a wider range of sharia-compliant products. Experts estimate that the pool of savings in the informal economy could amount to $90bn. “Islamic finance is still relatively small scale in Algeria, accounting for less than 4% of all assets across the banking system. However, there is big potential for Islamic banks to capture a greater share of household savings that are currently held outside traditional banks,” Rachid Sekak, senior consultant at BRS Consultants, told OBG. “On the lending side, utilising sharia-compliant financial products to fund home purchases could be a big growth area.”

FIRST MOVERS: While Islamic finance has not developed as rapidly in Algeria as elsewhere, it is far from a new phenomenon. Although private banks represent a smaller portion of the country’s banking sector (see overview), many already offer sharia-compliant products in some form.

Bahrain-based Al Baraka was incorporated as the first Islamic bank in Algeria in 1991. It focuses primarily on retail and commercial banking, and has a 30-branch network in the country. Al Salam Bank, also a Bahraini institution, began operations as Algeria's second Islamic bank in 2006. It works mainly in the commercial and trade finance segments, but it is aiming to significantly increase its presence in consumer and housing finance by 2020.

Elsewhere in the private sector, Jordan’s Housing Bank and Gulf Bank of Kuwait have opened Islamic windows, while France’s BNP Paribas created its own sharia board in 2012 and has been offering sharia-compliant products since 2014. In July 2017 another French bank, Société Générale, said it was planning to follow suit by providing participatory deposit accounts, and it now offers the Tawfiri 0% account with no interest or fees. These and other entities have also provided sharia-compliant leasing products for a number of years.

REGULATIONS & BANK SERVICES: The end of 2017 into early 2018 should see efforts to establish a national sharia board, with the six state-run banks signalling their intentions to begin offering Islamic financial services over the same period.

“Three major public banks – Banque de l’Agriculture et du Développement Rural (BADR), Banque de Développement Local and Caisse Nationale d’Epargne et de Prévoyance – will launch Islamic products before the end of 2017, and the rest will follow in 2018. This will allow the sector to meet existing needs of customers and increase financial inclusion rates,” Boualem Djebbar, CEO of BADR, told OBG. “2018 will be the year of Islamic finance generalisation in Algeria,” he added. It is expected that the banks’ expanded services will include murabaha (cost-plus financing), ijara (leasing services) and musharaka (joint-venture) partnerships.

To oversee implementation of the new offerings, the government aims to establish a national sharia board by the first quarter of 2018. This marks a significant step forward for the Islamic finance segment, which has so far lacked a dedicated regulatory framework. Indeed, although the banks appear
Offering alternative products on the market is a key part of the new government’s action plan to attract a more diverse range of investors.

The six government-run banks will begin offering Islamic financial services in late 2017 and early 2018 to attract more investors, which seeks to “ensure the development of the capital market as well as the stock exchange to offer alternatives to financing of investment and capital increases”.

Sovereign debt could play a pioneering role; in addition to expanding bank services, Prime Minister Ahmed Ouyahia spoke about the government’s plans to introduce non-traditional savings products by issuing sukuk on the local stock exchange, the Bourse d’Alger, at some point in 2018. The move, which aims to improve liquidity on the market by bringing in a more diverse range of funds and investors, has been on the agenda for some time.

Working with international partners is also part of the government’s growth strategy. In October 2017 Abderrahmane Raouya, the minister of finance, headed to London to discuss areas of collaboration within the financial services industry. Areas related to Islamic financial services were among the issues discussed at the meeting, which covered Islamic finance and sovereign bonds, public-private partnerships and financial technology.

Further capital market expansion would be a welcome development for the country. Despite having a larger GDP and population than both Morocco and Tunisia, Algeria’s total market capitalisation – AD43.6bn (€361.6m) as of October 2017 – is smaller than that of its neighbours. The Casablanca Stock Exchange’s market cap stood at Dh625.7bn (€57.7bn), while the Bourse des Valeurs Mobilières de Tunis recorded TD21.3bn (€8.3bn).

Despite relatively low volumes in terms of trade and number of investors, Algeria’s capital market is rapidly developing. Combined capitalisation increased by some 195% between 2014 and late 2017. Furthermore, in April 2016 the government issued its first bonds since 2010, giving the market new momentum that could be sustained though next year, particularly if plans to issue sukuk go ahead.

INCLUSION: These moves are important to reach Algerians who remain unbanked and bring them into the fold of financial inclusion. According to the World Bank, the share of adults with an account at a financial institution was 50% in 2014, leaving a significant portion of the population that chooses to keep money out of the financial system.

If the government proves successful in reaching this segment of the population and providing suitable services, it could have a significant impact on the state banks’ customer base, as these institutions already overwhelmingly dominate the market. As of end-2015 the six state banks accounted for 88.3% of total sector deposits (see overview).

PARTICIPATIVE BOND: Broadly speaking, the Algerian financial authorities have been reluctant to label Islamic financial products as such, preferring to use the term “participative” to appeal to a wider investor base. However, the attitude of officials could be beginning to shift. The government’s move to consider offering sukuk (Islamic bonds) followed criticism of the state’s issuance of an interest-bearing bond sold directly to retail investors in 2016, through which the government raised $5.86bn.

While no sukuk had been listed on the exchange as of the end of 2017, offering alternative products remains a key part of the government’s action plan to attract more investors, which seeks to “ensure the development of the capital market as well as the stock exchange to offer alternatives to financing of investment and capital increases”.

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On the cusp

More listings and the introduction of new financial products are expected to jump start the markets

As bank borrowing becomes increasingly expensive, capital markets are emerging as a financing alternative for a range of domestic firms. This is true of the government as well, as large fiscal deficits mean financing needs are likely to remain significant. Before hydrocarbons prices fell in 2014 – and the resulting economic headwinds occurred – banks benefitted from plentiful liquidity, which allowed them to lend to the public and private sectors at competitive rates (see Banking overview). This abundance of financing is one reason capital markets in Algeria have remained at an early stage of development. Other factors include the population’s strong and persistent preference for cash, and a general distrust of formal financial products and institutions.

FORMATION: The Société de Gestion de la Bourse des Valeurs (SGBV) was created in 1997 to operate Algeria’s capital markets, with the six state-run banks participating as shareholders. Overall, market capitalisation on the Bourse d’Alger, which was launched in 1999, remains dominated by sovereign bonds, and no new corporate bonds have been listed since the most recent one matured in early 2016. Eriad Sétif, a state-owned agri-food business, was the first firm to publicly list in 1999, joined later that year by SAIDAL, a publicly owned pharmaceutical company. In 2000 Entreprise de Gestion Hôtelière El Aurassi (EGH El Aurassi), the state-run hotelier, followed suit. There were no further initial public offerings (IPOs) for more than a decade after this, and Eriad Sétif withdrew from the market in 2006.

Three private sector listings since 2011 changed the dynamics of the equity market, but it still remains in an early stage of development with limited secondary market liquidity. Total market capitalisation, including both equity and bonds, stood at AD437bn (€3.6bn) at the end of June 2017, having been in gentle decline since 2015, when bond issuance peaked. The most notable development in 2017 is the expected inaugural listing on the dedicated equity market for small and medium-sized enterprises (SMEs) by AOM Invest, which was preparing to go public in the second half of the year.

REGULATION & DEVELOPMENT: Since its establishment in 1993 the Commission for the Organisation and Oversight of the Stock Market (Commission d’Organisation et de Surveillance des Opérations de Bourse, COSOB) has been the independent regulator of Algeria’s capital markets, and has overseen the 11 active market intermediaries. Physical trading takes place on Monday and Friday mornings, with price movements restricted to within 5% to limit intra-session volatility. COSOB has put together a strategic development plan for the 2016-20 period, founded on three pillars: increasing the number of listed equities from five to 30, developing both existing and future market participants, and improving communication efforts to boost the market’s image.

BOND MARKET: As in many emerging economies, Algeria’s fixed-income market dominates. The value of outstanding bonds was AD391.8bn (€3.2bn) at the end of June 2017, having fallen from a high of AD440bn (€3.6bn) at the end of 2015. Together with the IPO by Biopharm that tripled market capitalisation on the equity index in 2016, the recent decline in the value of the bond market has narrowed the size gap between these markets. At the end of 2015 the bond market was 28.5 times the size of the equity market, but by mid-2017 it was only 8.5 times larger.

Since the last corporate bond issue matured in early 2016, public listings have exclusively been government-issued sovereign bonds. Dahlì SPA, a commercial, hotel and leisure properties builder, issued a seven-year AD8.3bn (€68.8m) bond in 2009, with coupon rates increasing from 4% in the first year to 6.75% in 2016, at which point it was fully paid off. “In addition to the publicly listed bond market, there are several large corporates with debt issues that are...
traded over the counter (OTC) among financial institutions," Kamel Taleb, director of market oversight and development at COSOB, told OBG. “These include Air Algérie, Algérie Télécom (Mobilis) and Sonatrach." Some publicly traded bonds are also traded OTC, which leads to less liquidity in the official market.

However, in terms of value, bond market liquidity continues to dwarf that of the equity market. The AD7.5bn (€62.2m) in bonds traded in the first half of 2017 was more than 67 times the transaction value on the equity market. First issues dominate activity, with much weaker activity on the secondary market. This, combined with the recent absence of corporate issues, means transaction levels are largely determined by the sovereign issuance schedule of the state. This has caused transactions to be somewhat volatile in recent years: from the abnormally low level of AD52m (€431,000) in 2013, transactions surged to AD8.4bn (€69.7m) in 2014 and doubled again to AD17bn (€141m) in 2015. Although transactions fell to AD11.6bn (€96.2m) in 2016, they reached AD7.5bn (€62.2m) in the first half of 2017, foreshadowing another strong year. One reason for the drop-off in 2016 was the introduction of the guichet direct (direct window), through which smaller-denomination sovereign bonds could be issued directly to retail investors – including those in the informal sector – as an alternative to traditional savings products.

According to international media, the government plans to issue its first sukuk (Islamic bond) in 2018, along with introducing Islamic financial services at state banks. In the past, consideration was given to the issuance of sukuk to finance the government, but none made it to the exchange in 2017. Souhil Meddah, director-general at RMG Consulting, told OBG, “Algeria still has a very cash-oriented culture, so while the introduction of Islamic financial products could absorb a small amount of the country’s savings, a big change in attitude would be necessary for these products to go mainstream.”

EQUITY MARKET: While the significant discrepancy between the market capitalisation of the equity and bond markets denotes their respective relevance, the narrowing of this gap suggests change could be imminent. For private businesses, the absence of corporate bonds – coupled with both Biopharm’s IPO in 2016 and the first listing on the SME equity market anticipated in late 2017 or early 2018 – suggests that the equity market could become a more viable financing alternative in the near future.

Having been dominated by two public sector companies – SAIDAL and EGH El Aurassi – since the late 1990s, the exchange could benefit from the recent listings of private sector entities: Alliance Assurances in 2011, NCA Rouiba in 2013 and Biopharm in 2016. With these additions, three of the five publicly listed firms are now private sector players, and these newcomers dominate market capitalisation.

PERFORMANCE & VALUATION: Despite economic turmoil, the stock index has been relatively flat throughout 2016 and 2017. Having been 1288.5 at the end of 2015, it increased to 1293.3 by the end of 2016 and 1294.8 by June 2017. Following Biopharm’s listing, however, market capitalisation of publicly listed equities experienced a three-fold increase, from AD15.4bn (€127.7m) at end-2015 to AD45.8bn (€379.9m) at end-2016. Since then, the market has been stagnant, with market capitalisation of AD45.7bn (€379.1m) as of the end of June 2017.

Accounting for more than two-thirds (67.1%) of total market capitalisation, Biopharm has dominated since its IPO, with its valuation reaching AD30.6bn (€253.8m) at the end of June 2017. SAIDAL is the second-largest stock, valued at AD6.7bn (€55.6m) in mid-2017 and accounting for 14.6% of the market. The other three listed equities are fairly close in terms of market capitalisation: EGH El Aurassi was valued at AD3.3bn (€27.4m) at the end of June 2017, accounting for 7.2% of the market, followed by NCA Rouiba with AD2.8bn (€23.2m) and 6%, and Alliance Assurances with AD2.3bn (€19.1m) and 5.1%.

LIQUIDITY: Dynamics in the primary market have been the principal driver of liquidity, as the secondary market remains both underdeveloped and underutilised. Before 2015 the equity market was declining, with an average of 86,754 transactions during the 2012-14 period for an average annual value traded of AD42m (€348,000). The IPO of NCA Rouiba bolstered these averages in 2013, and anticipation of the Biopharm IPO in early 2016 similarly boosted trading to 2.2m shares for a total value of AD1.25bn (€10.4m) in 2015. In 2016 there were 788,860 transactions, for a total value of AD806m (€6.7m).

With no IPO activity in the first half of 2017, transaction levels fell from the highs of 2015-16, with 184,750 shares traded for a total value of AD111m (€921,000). In the first half of 2017 there was a clear step change in liquidity – even on the secondary market – from the pre-2015 period. The SGBV and COSOB are hoping to improve liquidity, attract more IPOs and increase activity on the secondary market.

PUBLIC LISTINGS: As of 2017 there were five publicly listed companies on the Bourse d’Alger. First

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<th>Stock market capitalisation, 2012-H1 2017 (AD bn)</th>
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Source: SGBV
entering the market in 1999, SAIDAL, the state-run pharmaceutical firm, is the longest-standing listing. Its free float was 20% as of December 2016. Despite mixed performance in recent years, the firm enjoyed a strong start to 2017, increasing its share price from AD600 (€4.98) to AD665 (€5.52) over the first half of the year. At 5.25, its price-to-earnings ratio (P/E ratio) was the lowest of the five in 2016, though its dividend yield was second highest at 6.67%.

EGH El Aurassi has been listed on the bourse since February 2000, and the hotelier is still majority publicly owned, with a 20% free float as of December 2016. Its share price has advanced steadily since 2012, from AD340 (€2.82) at the end of that year to AD550 (€4.56) at the end of June 2017. At 8.95, its P/E ratio was second highest in the market for 2016, and its dividend yield for the year was 6.06%. Alliance Assurances was the first private firm to join the market via its March 2011 IPO. At 31% it boasted the highest free float on the market in December 2016. Its share price, however, has lost more than half its value since 2012, falling from AD825 (€6.84) at the end of that year to AD400 (€3.32) at the end of June 2017. Despite these challenges, Alliance Assurances has the strongest dividend yield of the five listed firms, at 9.68%. Its P/E ratio of 6.4 was in the middle of the pack in 2016.

Founded in 1966, the food and beverage producer NCA Rouiba joined the bourse in 2013. Its share price has declined every calendar year since its IPO, from AD405 (€3.36) at the end of 2013 to AD125 (€2.70) as of June 2017. This is likely due to weak earnings, which caused the firm to post the highest P/E ratio in 2016, at 21.8. Its dividend yield of 4.48% was the lowest on the market that year. One-quarter of NCA Rouiba’s stock was free floating at the end of 2016.

The most recent market addition is Biopharm, which had a AD6.2bn (€51.4m) IPO in early 2016. The vertically integrated pharmaceutical firm was popular with retail investors, who reportedly took up 86% of the offered shares, with institutional investors capturing the remainder. In December 2016 Biopharm had a 20% free float, while its market capitalisation reached AD30.6bn (€253.8m) by the end of June 2017. Its P/E ratio in 2016 was 5.63, while its dividend yield was 5.39%. Biopharm recorded a 10.3% increase in sales its first listed year, to AD56.3bn (€467m) in 2016, while operational profit increased 22.6% to AD7.3bn (€60.5m). This saw net profits increase nearly 25% to AD5.5bn (€45.6m) and earnings per share grow from AD173 (€1.43) to AD216 (€1.79), while the dividend per share was AD66 (€0.55).

### A Strong Effort

As part of its 2016-20 development plan, COSOB is aiming to increase the number of listings from the current five to as many as 30. “In 2013 COSOB identified eight public companies that could be possible candidates for flotation. Among these, Crédit Populaire d’Algérie, Hydro Aménagement and Mobilis appear the most likely, but these are at different stages of development, and none have yet applied for a listing,” Taleb told OBG.

Other candidates identified by authorities as potential IPO listers include Caisse Nationale d’Epargne et de Prévoyance, Banque Extérieure d’Algérie and Cosider Carrières, an infrastructure firm. “We do not expect to see further listings on the main market imminently, but it is possible that Compagnie Algérienne d’Assurance et de Réassurance could come to the market in late 2017 or early 2018,” Meddah told OBG. “Over the longer term, the listing of Mobilis, the leading mobile phone operator in Algeria, is eagerly anticipated by the market.”

In the medium to long term, lack of liquidity and available financing is expected to encourage more corporations to consider the stock market as a viable alternative. Meanwhile, both public and private sector banks may look to IPOs as a possible – or even necessary – way to raise funds to meet more stringent capital requirements (see Banking overview).

### SME Market

While the SME version of the main stock market has existed since 2012, it will only transition from theory to practice when the first firm
– widely expected to be AOM Invest – lists on the market. The SME market was established for companies with capital of up to AD500m (€4.1m), at least 10% of which must be freely floated on the exchange. Participating firms are also required to nominate a promoteur en bourse (sponsor) for five years to guide them through the early stages of activity as a listed company. Sponsors must assist new firms in meeting market requirements for information disclosure, transparency and good governance.

With a goal of creating a pipeline of stock market-ready SMEs, in July 2016 the SGBV signed a partnership agreement with the 3000-member association of young entrepreneurs, jil’Forum des Chefs d’Entreprise (jil’FCE). At the time of this agreement, Mohamed Skander, president of jil’FCE, announced there were five SMEs ready to list on the stock market. These were active in diverse sectors, such as plastics, aquaculture, services and agricultural equipment. The digital finance and e-payment segments have also been flagged as having potential for smaller firms to join the stock market. Yazid Benmouhoub, director-general of the SGBV, noted some advantages that SMEs have over larger firms in the country, including a higher capacity to raise debt and negotiate borrowing rates with banks, as well as tax advantages that have been in place since 2015.

AOM Invest is an SME based in western Algeria that specialises in research and development, as well as the operation of tourism projects. Once the agreement has been signed by COSOB, AOM Invest is expected to become the first firm to list on the dedicated SME version of the local stock market. While preparing for listing, the firm had social capital of AD112m (€929,000). In coming to the stock market, the firm hopes to raise sufficient capital to finance its countrywide development plans. The listing may also provide a positive example for other SMEs. However, while many SMEs have expressed interest in following in AOM Invest’s footsteps, no other firm had applied to the authorities by mid-2017, as players adopted a wait-and-see approach.

UPGRADE INITIATIVES: Supported by initiatives from the Ministry of Finance, the SGBV is upgrading its pricing and quoting technology over 2017-18. This €10m-11m investment will see trading move to a fully digital platform for the authorisation and clearing of trades, which should eventually allow investors to trade remotely through mobile devices and other internet platforms. By facilitating trading, this new technology is expected to improve market liquidity.

Also on the docket is collaboration agreed upon in late October 2017 between the city of London and the Bourse d’Alger. While specific details are forthcoming, a memorandum of understanding was signed to develop the bourse in terms of equipment, training and regulation. Some areas highlighted for cooperation include public-private partnerships, sovereign bonds, Islamic finance and technology.

CURRENCY: There are two currency markets in operation in Algeria: the official market run by the central bank and a parallel market operating outside the official institutional framework. Between December 2014 and December 2017 the official exchange rate saw the dinar depreciate by approximately 33% against the dollar. This was largely in an effort to boost revenues in local currency from sales of hydrocarbons, which experienced a price collapse from more than $100 per barrel in 2014 to less than $30 per barrel in 2016, before recovering to around $60 by late 2017 (see Economy chapter).

The official currency market is considered limited and rigid, lacking the flexibility required for actors in the real economy. Therefore, the parallel market caters to retail investors, commercial actors and players from outside the country.

However, the parallel market is more expensive, as is usually the case, because in addition to the exchange rate determined by the official market, traders must pay Customs and value-added tax.

“Following the shift of the dinar relative to the dollar, the insurance sector could benefit from updating its capital,” Mokhtar Naouri, CEO of Cash Assurances, told OBG. “Such an action, if taken by every insurer, could increase market turnover.”

OUTLOOK: With bank financing rates on the rise, more firms are expected to consider the stock market as a viable alternative in the years ahead. It will be important to maintain momentum when the first firm lists on the SME board, as this is expected to bring others to the market. Larger corporations are believed to be considering listing in 2018 as well.

For the capital markets to play their full role in Algeria’s economic development, there is a need for more corporate bond issuance and a more regular schedule of sovereign debt issuance at various tenors. This would establish a reliable yield curve, against which the private sector could benchmark investment and funding decisions. Allocating credit ratings to sovereign bonds could help as well, while the availability of new, publicly listed fixed-income products – such as sukuk – could further increase liquidity by bringing in more funds and investors.

As much as

€11m is being invested in 2017-18 to fully digitise the market’s platform for authorising and clearing trades

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<th>Bond market indicators, 2012-16</th>
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Source: SGBV
Untapped potential

Lazhar Sahbani, Partner, PwC Algeria, on attracting more businesses to partake in the country’s capital markets

How would you assess the existing level of maturity of capital markets in Algeria?
SAHBANI: The market’s current grade of maturity reflects the volume of business opportunities that the country has to offer: an abundance of untapped potential. Capital markets are an emerging financing option that is currently stimulated by the government, representing many possible upsides for the country’s economy. First of all, it is an important means of financing for companies seeking liquidity. Investors can also benefit from better rates of profit, and companies can develop foreign operations more easily. Second, it is an ideal method of boosting the financing sector in general. Lastly, it serves as an alternative to retail investors. More broadly, further maturing of the markets would improve Algeria’s image internationally, as it would add credibility to its economy. For instance, companies that list on the stock market must publish their balance sheets, which increases the general level of transparency in the business environment. Furthermore, it would channel part of the liquidity in the informal sector, on top of the fact that listing usually extends the longevity of family-run businesses.

What measures need to be implemented to further enhance the role of capital markets?
SAHBANI: There are already a number of tax-related tools that exist to that end, such as a tax exemption for capital gains, tax advantages for listed firms, low registration fees and a reduced corporate income tax. What is lacking in the markets, however, is trust. A considerable communication effort needs to be made to democratise the role of the stock exchange. The perception of company owners remains distorted, and many are unaware of how beneficial it could be for them. It needs to become a legitimate substitute for bank loans and individually owned funds. To remedy this, specific training for media, investors, institutions and businessmen should be conducted. A partnership with the City of London was recently established in this regard. We should also tell economic actors about success stories that were made possible through the stock exchange, as it offers examples for those looking to extend their business activities. Listing a successful public entity could be a catalyst for the whole financing sector, whether it is a bank, an insurance company or an investment fund. A further step would be to open the stock market to binational investors and even to foreigners, with a proper legal framework for exchange rate regulations and funds transfers. If we want the stock market to fulfil its role, we must implement all the necessary measures for it to do so.

What are the main challenges facing foreign companies looking to invest in Algeria?
SAHBANI: The 51:49 investment rule remains a regulatory obstacle for some, but it is positive in that it forces investors to create local values. Moreover, many companies have adapted to it perfectly and run their operations without constraints. The most difficult challenges are bureaucratic in nature. Despite notable progress led by the Ministry of Finance’s simplification measures, it is still a long and painful process to legally create a company in Algeria. The country could benefit from following the example of Asian states that allow businesses to register in a few days. Another issue is the instability of the legal framework, with new laws constantly appearing. What investors need most is the visibility to accurately evaluate risks and draft their strategy accordingly. The current economic instability, stemming from the huge dependence on hydrocarbons revenue, calls for a more transparent business climate to reassure foreign firms that investing in Algeria remains profitable. The country still holds assets that distinguish it from the rest of the region, such as its market size, geographic position, and natural and human resources. Investing in Algeria has its challenges, but for those who can overcome these, it can be a big win.
Incentivising investment

The stock market can provide promising financing alternatives, but requires further supporting regulations

Capital markets represent a financing alternative for Algerian companies, especially considering the current economic trend marked by a decrease in liquidity and foreign currency reserves. The stock market will simultaneously provide non-inflationary financing means to economic agents and have better savings yields.

Currently, the Algerian stock market faces difficulties with development despite favourable conditions and an attractive tax framework. For instance, the government has created several initiatives to strengthen interest in floating shares on the Bourse d’Alger through a number of legal and tax incentives.

**INCREASING TRUST:** Nonetheless, to enhance market attractiveness, it is necessary to employ other measures that increase investors’ and savers’ levels of trust. It is imperative to incentivise institutions – banks, insurance companies and investment firms – as well as important public and private companies to list on the stock market. In neighbouring countries, listings have taken place through the privatisation of public companies. This has enhanced trust in the market and incentivised private companies to open their capital to individuals. It has also brought important liquidity to the bourse and increased trade volumes. This caused stock market capitalisation to increase by 93% in 2004 when Telecom Maroc and Banque Centrale Populaire were listed.

Furthermore, there should be a focus on attracting small and medium-sized enterprises (SMEs) to the stock market. The economic fabric of Algeria is largely composed of SMEs, some of which have reached a critical phase of development and are now looking to get to the next level. These family businesses are usually run by their founders or direct heirs. Opening their capital to other partners and calling for public savings through a stock market listing could be an opportunity for family businesses to accelerate their development and modernise their governance modes.

Despite the creation of a dedicated programme for SMEs by the regulatory authorities, none have been listed yet due to a lack of suitable offers. Because of this, seeking inspiration in neighbouring countries could be the solution. Several states have granted financial aid to SMEs that fulfil stock market listing requirements, incentivising them to open up their capital. Meanwhile, the development of undertakings for collective investment in transferable securities (UCITS) and investment funds should help streamline the stock market.

**FUNDS & UCITS:** Several neighbouring countries have set up new tools through the creation of investment funds dedicated to institutional investors. These funds have been created via a partnership between professionals operating in the market, and the Deposit and Consignment Office. These measures had a significant positive effect on stock market capitalisation.

Moreover, opening the market to international investors would positively influence the development of the stock exchange. The key would be to use tools such as UCITS to attract international investments and allow Algerian residents to invest abroad. Countries in the region have enabled UCITS to invest a share of 10% of their assets under management in foreign titles. These measures have been applied under specific conditions.

First, the operations can only be undertaken in OECD, EU or Arabic Maghreb Union countries. The second condition concerns the nature of the transaction: UCITS can only invest in listing titles, deposit titles in foreign banks, stock shares or loan securities. Lastly, a minimum flotation is mandatory for loan securities and for foreign banks where UCITS own deposits. Acquiring international titles will allow for the development of mutual funds by ensuring a larger diversification of financial products. However, to make this possible, the legal framework must evolve to meet the needs of Algerian residents who wish to invest abroad.

Hence, the legal framework should be modernised for foreign investors to ease stock market trading – especially for Algerians that live abroad – which will boost the market and attract more foreign capital.
Work in progress

Young residents and low penetration set the foundation for future growth

Welcoming only a few new entrants to the market, the structure of Algeria’s insurance sector has remained relatively stable in recent years, with the four largest state-run insurers continuing to dominate. Purely private sector insurers capture less than one-quarter of the market, despite making modest gains of late. While the life insurance segment accounts for just 10% of total premiums, its growth has been outperforming the non-life segment – a trend that looks set to continue.

The dominant driver of activity in the insurance sector is wider macroeconomic performance. This can be seen most clearly in the stagnation of insurance premiums during 2015-16, and the slight reversal witnessed in early 2017, after a decade of double-digit growth. Given that inflation has been in the mid-single digits since 2015, the recent performance is even weaker when adjusted for price fluctuations, significantly lagging behind GDP growth. Low penetration rates offer significant potential for growth, but also highlight challenges facing local underwriters. “Unlike in other countries, Algeria’s insurance culture is not very developed. There is not a lot of product innovation, and people are often not aware of the products that are available,” Noureddine Tirichine, director of marketing and development at Trust Assurances, told OBG.

DEMOGRAPHICS: Algeria’s population increased at a relatively rapid rate of 1.9% per annum over the 2010-15 period, surpassing 40m for the first time in 2016. The country has a young population, with an estimated median age of 27.8, which bodes well for future economic growth as the labour force expands. The youth dependency ratio was 43.6 per 100 people in 2015, compared to an elderly dependency ratio of just 9.1. This highlights a potential growth area for the life insurance segment in the long term as the population begins to age, albeit at a slower pace than the most developed insurance markets. The economy is expected to grow more slowly than the population during the 2017-18 period, according to the latest IMF forecasts, meaning that per capita incomes will decline, undermining near-term prospects for a return to premium expansion.

PREMIUMS: In nominal terms, premiums have grown modestly in recent years, posting 2% increases in both 2015 and 2016 to reach AD133.9bn (€1.1bn) by the end of this period. The advancement marks a slowdown from the average annual growth rate of 12% in the 10 years between 2005 and 2015.

Accounting for 89.2% of premiums, the non-life segment saw particularly weak growth in 2016, rising only 0.6% to AD119.4bn (€990.4m). Meanwhile, life insurance – which accounted for 8.6% of premiums – had a relatively strong year, recording an 11.8% increase – almost twice the rate of inflation for the period – to hit AD11.5bn (€95.4m). Although small by comparison, the international acceptances segment that represents 2.2% of premiums experienced significant growth of 35.2% to reach AD2.9bn (€24.1m).

Macroeconomic weakness in the first six months of 2017 fed through to a decline in premiums, which slid 3.2% to AD69.9bn (€579.8m) in the first half of the year compared to the same period of 2016. A fall of 4% was recorded in non-life premiums to AD61.6bn (€510.9m) – accounting for 88.1% of the total – but a 0.3% increase showed in life premiums, which represented 9.7% of the market, to bring the segment to AD6.7bn (€55.6m). The remaining 2.2% of the market belonged to international acceptances.

NON-LIFE LINES: Auto insurance has traditionally been the dominant segment in Algeria, making up over half (54.6%) of all insurance premiums in 2016, down 1.4% to AD65.3bn (€541.6m) for the year. Almost one-fifth of this is accounted for by risks that are obligatory to cover, with those lines showing modest premium growth of 0.3%. The overall decline in auto insurance was therefore driven by the 1.8% decrease in non-obligatory risks, which made up the remaining four-fifths of premiums, as consumers began to drop discretionary cover in light of the challenging economic environment.
Reduced automobile supply coming into the country, and thus lower vehicle sales, has also played a part in dampening the segment, as imports have fallen since the 2015 implementation of enhanced safety standards. “Restrictions on automobile imports have had a knock-on effect on the auto insurance and road transport segments, as there has been a slowdown in the increase in the number of vehicles to insure,” Rachid Sekak, senior consultant at BRS Consultants, told OBG.

The second-largest non-life segment, insurance for fire and other property risks, accounted for more than one-third (35.5%) of premiums in 2016 and posted a modest gain of 1.3% for the year, reaching AD42.5bn ($352.5m). This was driven by strong performance in the largest subcategory – insurance against fire, explosions and natural disasters – which advanced 10.5%. Still, the segment has underperformed expectations as economic headwinds have taken their toll on investment in infrastructure and civil engineering projects.

The non-life category comprises three other, smaller segments: transport insurance, which accounted for 5.8% of all premiums in 2016 and posted a 21.3% gain on the year to reach AD6.9bn (€57.2m); agricultural insurance, which slipped 10.3% to AD3.4bn (€28.2m) and contributed 2.8% of total premiums; and credit insurance, which was the strongest – albeit smallest – subsegment, posting gains of 23.9% to reach AD1.4bn (€11.6m) for the year and 1.2% of the total.

In the first half of 2017 auto insurance posted a 3.8% year-on-year (y-o-y) decline to AD34.5bn (€286.2m), with a similar 2.2% drop in property to AD22.4bn (€185.8m). Falls were more pronounced in transport (16.9%) and agricultural (27.3%) coverage to record premiums of AD2.3bn (€19.1m) and AD1.4bn (€11.6m), respectively. Credit bucked the trend by posting an increase of 38.7% compared to the first half of 2016, realising AD920m (€7.6m) in premiums.

Penetration & density: Prior to 2010 insurance penetration experienced several years of strong progress, albeit from a low base, increasing from 0.55% of GDP in 2006 to 0.76% in 2009. By 2011 it had fallen back to 0.6% before beginning a modest recovery. According to insurance giant Swiss Re, penetration reached 0.8% of GDP by 2016, on par with Angola, but less than half the 1.97% rate seen in Tunisia and less than a quarter of the 3.48% share in Morocco. Moreover, with inflation-adjusted premiums lagging behind real GDP growth since 2015 – a trend likely to continue at least through 2017 – the medium-term outlook does not suggest that Algeria will soon close the penetration gap with its regional neighbours. Nonetheless, the authorities are optimistic, estimating that penetration could reach 0.96% of GDP in 2018 and 1.06% in the event that a new legal regime for takaful (Islamic insurance) is successfully introduced. Insurance density, or premiums per capita, stood at $30 in 2016, on par with Angola’s $30.50, but behind Tunisia’s figure of $72.50 and Morocco’s $102. These, in turn, are small fractions of continental leader South Africa, at $763.

sector structure: According to the National Insurance Council (Conseil National des Assurances, CNA), state-run insurance firms dominated the sector in 2016, with private providers holding a 23.3% share of the non-life market and 29.4% of the life segment.

Of the life insurance categories, the health insurance subsegment is the smallest in absolute terms, accounting for only AD48.4m (€401,000) in premiums in June 2017. However, it had the strongest private sector presence at 61.2%. Private underwriters are also reasonably well represented in the life and death segment, where they held 37.7% of the AD2.3bn (€19m) market.

In the AD1.4bn (€11.6m) assistance segment, the private sector had a 30.3% share, while it held a 28.2% share in the AD910m (€7.5m) accident insurance subsegment. The private sector was more weakly represented in the AD2.1bn (€17.4m) collective policy segment at mid-year, with an 8.4% market share.

In non-life coverage at June 2017, private sector presence was strongest in auto insurance, where it held 31.4% of the AD34.5bn (€286.2m) market, and weakest in the smaller non-life segments of credit, with 0.6% of AD920m (€7.6m), and agricultural insurance, with 7.4% of AD1.4bn (€11.6m). Private companies held a 19.4% share of the AD2.3bn (€19.1m) transport coverage total, and 16.5% of the AD22.4bn (€185.8m) property risk category. “We expect to see a similar trend through the second half of 2017, but the outlook for 2018 is dependent on the oil price and broader economic trends,” Tirichine told OBG.

Industry players: According to figures provided by the Ministry of Finance (MoF) in 2015 – the latest year for which a breakdown by firm is available – four non-life insurance companies recorded premium income greater than AD10bn (€82.9m), two businesses recorded income between AD5bn and AD10bn (€41.5m-82.9m), and the remaining seven took in less than AD5bn (€41.5m) over the year.

Leading the segment with a 23.3% share of non-life activity was Société Algérienne d’Assurances (SAA), with premiums of AD27.4bn (€227.3m) in 2015. It was...
followed in second place by Compagnie Algérienne des Assurances (CAAT), with AD21.2bn (€175.8m) and an 18% market share. In third and fourth place were Compagnie Algérienne d’Assurance et de Réassurance (CAAR) and Caisse Nationale de Mutualité Agricole (CNMA), respectively, which recorded premiums of AD16.6bn (€137.7m) and AD12.5bn (€103.7m), giving them 14.1% and 10.6% shares of the non-life segment. These four – totalling 66% of the non-life market – are all state-owned and have long dominated the sector.

Coming in next were Compagnie Algérienne des Assurances dans le Secteur des Hydrocarbures (CASH) and Compagnie Internationale d’Assurance et de Réassurance (CIAR) in fifth and sixth places, respectively, with premium incomes of AD9.9bn (€82.1m) and AD9.1bn (€75.5m), and market shares of 8.4% and 7.7%. The remaining seven firms active in the market accounted for a total of AD21.1bn (€175m) in sales, or 17.9% of the non-life segment.

The life insurance segment, though smaller at 10% of the industry, enjoys more competitive dynamics, with six of the eight participants holding roughly similar market shares. Having seen its premium income advance 37% during 2015, TALA Assurances – a subsidiary of CAAT – was the largest life insurer in Algeria that year. Its income of AD2.1bn (€17.4m) secured it a 21.2% share of the market. CAARAMA Assurance – a subsidiary of CAAR – retained second place in 2015, though its 16% growth in premium income saw it fall further behind the segment leader, partly due to having lost its business with Sonatrach, the government-owned hydrocarbons company. CAARAMA held a 17.7% share of the life segment, with AD1.8bn (€14.9m) in premium income.

Following were four other life insurers: Cardif El Djazaïr, a subsidiary of France’s BNP Paribas, having 15.5% of the market with AD1.6bn (€13.3m) in sales; Société d’Assurance, de Prévoyance et de Santé, securing 14.7% with sales of AD1.5bn (€12.4m); Macir Vie, a subsidiary of CIAR, having a 13.5% share with sales of AD1.4bn (€11.6m); and AXA Assurances Algérie Vie, with 12.8% of the market and AD1.3bn (€10.8m) in sales.

There are two additional smaller life insurers, Le Mutualiste – a subsidiary of CNMA – and Algerian Gulf Life Insurance Company (AGLIC), which registered a combined AD467m (€3.9m) in premium income in 2015.

NEWCOMERS: The sector has been relatively stable in terms of participants in recent years, partly as a result of reticence among potential foreign entrants since the authorities reinstated the 49% maximum foreign ownership provision in 2009. Although this restriction was relaxed in 2017, it was maintained for the strategically important energy and financial sectors. Over the longer term, a removal of this restriction would make Algeria an attractive entry opportunity, given the significant scope for organic growth as demonstrated by existing low penetration levels. The most recent new player arrived in 2015: AGLIC, a joint venture between Gulf Insurance Group of Kuwait, CASH and Banque Nationale d’Algérie, trading as L’Algérienne Vie.

FOOTPRINT: Algerian insurance firms invested heavily in expanding their branch networks in the decade to 2015, with the total number of outposts increasing from 1230 to 2223 over the period. Bancassurers accounted for a further 750 sales points based in bank branches. The number of insurance brokers almost doubled from 20 to 38 in the 10 years to 2015, although only 28 of these were deemed active that year.

Together with relatively robust economic growth, this expanded footprint was a key driver of double-digit increases in premiums until 2014. According to the MoF, 71% of premiums were generated directly through underwriters in 2015, with the remaining 29% generated by brokers and other intermediaries. There are a number of different business models, however, with some insurers relying on intermediaries to generate two-thirds or more of their business – CIAR, for example, derived 91% of its sales from intermediaries in 2015 – while others hardly use them at all. The largest insurer that does not work through intermediaries is CNMA.

CLAIMS: Insurers saw a significant improvement in claims payable during 2016, falling 11.3% to AD62.4bn (€517.6m). The vast majority of these – 96% – were accounted for by claims in the non-life segment, the total of which declined by 12.1% to AD59.9bn (€496.8m), with reductions across all subsegments. This marks a trend reversal over the 2010-15 period, when payouts of claims totalled AD344.5bn (€2.9bn), posting an average annual growth rate of 14.7%.

The new trajectory looked set to continue in 2017, with claims payable falling 32.3% y-o-y in the first six months. However, the current decline is related to a backlog in claims. “Partly due to staff being overwhelmed and partly because insurers are insufficiently equipped, there is a backlog of about 1.5m unresolved claims,” Sekak told OBG. This situation undermines customers’ confidence in insurance. “There is a need for more pressure to be put on insurers to improve their standards of service and deal with claims in a more timely manner,” he added.

In order to improve capacity to process auto insurance claims, the industry adopted two conventions in 2015. First, the Agreement on Remedies at Average Cost allowed for 78,000 claims dating from the 2010-12 period and amounting to AD3bn (€24.9m) to be processed. The second, the Agreement on Resolving Material Auto Claims, came into effect in June 2016 and has further improved processing times. Nonetheless, more work remains to be done to clear the backlog and restore public confidence in the system.

REGULATORY FRAMEWORK: The Insurance Directorate of the MoF is the key sector regulator, responsible for leading reform efforts and preparing legislation. The core of the legal framework governing the sector is Ordinance 95-07 of January 25, 1995, amended and supplemented by Law No. 06-04 of February 20, 2006.

The Basic Law of 1995 opened up the sector, which had been the preserve of a state monopoly, and the 2006 changes mandated the separation of life from non-life lines, and established a legal framework for bancassurance. During 2016 and 2017 the MoF carried out an extensive consultation process with a view to further upgrade the legal framework in order to
provide, among other changes, for the mainstreaming of Islamic insurance products.

Also within the ministry and established under the 2006 law is the Insurance Supervision Commission, responsible for licensing insurers and providing ongoing oversight of the sector. The MoF manages two funds, the Automobile Guarantee Fund and the Assured Guarantee Fund, which respectively seek to indemnify victims of auto accidents in cases where the person responsible is unknown or uninsured, and clients of insurers in the event that the latter becomes insolvent.

Outside the MoF, sector participants are represented by the Algerian Union of Insurance and Reinsurance Companies (Union Algérienne des Sociétés d’Assurance et de Reassurance, UAR), an industry body, while the CNA acts as an umbrella organisation, bringing together public authorities, insurers, brokers and other players.

DIGITAL INSURANCE: As with digital banking, Algeria’s online offering in the insurance sector lags behind developments in its cohort of countries. While the vast majority of firms have a website with basic information about the company and the products they offer, there is wide scope for greater interactivity.

In the current landscape, the websites of sector players SAA, CAAT, CAAR and AXA Assurances allow prospective clients to obtain quotes for various products, with Alliance Assurances allowing customers to declare an auto accident in addition to offering online quotes for six of its products. Some insurers are represented on social media, while others make use of SMS messages to advise clients of the impending expiry of their policy or the payment of claims.

E-payments were launched in Algeria in late 2016, with the life assurer Amana – a subsidiary of SAA and French-owned MACIF Assurances – among the first participating companies. As the system is rolled out nationwide, more insurance firms can be expected to allow their clients to pay electronically with bank cards.

TAKAFUL: Despite its largely Muslim population, Islamic insurance products are still very much in their infancy in Algeria; only one insurer, Salama Assurances, currently offers them. Having operated in the country since 2000, the Dubai-based insurer increased its market share in 2016, and its 6% growth in sales outperformed the industry average. Even as the sector as a whole is experiencing a challenging period, Salama is predicting another strong year in 2017 following the launch of its family insurance and index-linked agricultural products.

The CNA has been working closely with relevant ministries, as well as industry participants and external experts, to prepare a feasibility study on the wider introduction of takaful. The study will likely address the legal, technical, organisational, economic and social aspects of sharia-compliant products. Covering both the life and non-life segments, the new regime foresees takaful specialists like Salama, as well as conventional insurers, offering both classic and Islamic products – similar to the Islamic windows opened by many of the country’s banks in recent years.

In practise, the authorities have announced their intention to amend the existing Insurance Law. It is recognised that new Islamic accounting standards and Islamic financial assets, such as sukuk (Islamic bonds), will need to be introduced to the framework to make it a success, while staff across the industry will need to be trained to deal with takaful products.

Speaking to local media in February 2017, Brahim Djamel Kassali, president of the UAR, noted, “Takaful has real potential in our country, but it needs a dedicated legal framework. To this end, one must recognise the steps taken by the MoF to revise the Insurance Law, which will provide an opportunity to integrate – among other things – the basic rules and principles of this type of insurance.” The 2018 Finance Law, which is said to include the first legal framework for takaful, was under debate in the second half of 2017.

REINSURANCE: Reinsurance enjoyed a more fruitful year in 2016 than other insurance segments, with premiums advancing 7.4% to reach AD27.2bn (€225.6m). Of this figure, AD24.3bn (€201.6m), or some 90%, was generated by domestic reinsurers, with the remaining AD2.9bn (€24.1m) coming from international firms. On
the industry’s 14,855 staff represented more than half (51%) of management costs.

Across the sector, the insurance margin covered general costs at a rate of 127% in 2015, with AXA Assurances, at 69%, the only firm to fall below 100%. The national reinsurance provider, CCR, was the most efficient by far, covering general costs 460% with its insurance margin. Return on equity (ROE) averaged 8% across all direct insurers in 2015, ranging from a loss of 40% at AXA Assurances – the only institution in the red – to 13% at TALA Assurances and Alliance Assurances; CCR recorded an ROE of 12%.

The solvency margin for the industry as a whole, including reinsurance, improved by 7% to reach AD141.1bn (€1.2bn), with increases registered in all providers with the exception of MAATEC Assurance, which nonetheless remained the insurer with the most comfortable solvency margin position. In aggregate, this represented 95% of premiums, or five times the regulatory minimum, and 93% of technical provisions, equal to six times the regulatory minimum.

OUTLOOK: The weak trend in premiums seen in early 2017 is expected to continue, with Hassan Khelifati, CEO of Alliance Insurance, telling local press that total insurance turnover could fall by 8% in 2017. The IMF forecasts 2018 to be another slow year of crafting a sustainable diversification plan. “There is a pressing need to reposition businesses and ease the country’s reliance on hydrocarbons revenue. Oil and gas are non-renewable resources, so Algeria must work to secure its economic position,” Nacer Sais, CEO of SAA, told OBG. Fiscal consolidation is expected to continue to limit infrastructure projects undertaken by the government, in turn limiting new policies being written to cover such activities, and as long as vehicle imports remain restricted, there is likely to be a ceiling on the potential growth of auto and road transport insurance. Still, favourable demographics and relatively low insurance penetration hold the promise of significant growth potential in the longer term, particularly outside the currently dominant auto insurance line. Given that it is building from a low base, the life segment can be expected to continue to outperform the wider sector as the population begins to age. Greater availability of insurance products and increased use of digital platforms should also underpin future industry growth.

Nearly half of the reinsurance market relates to fire risk, which posted a 15.5% increase over the course of 2016. This made it the biggest driver of the segment’s overall gains.

Health insurance has the strongest private sector presence, at 61.2% of the local side, the state-run Compagnie Centrale de Réassurance (CCR) is the monopoly provider.

Nearly half (46.5%) of the reinsurance market relates to fire risk, and with a 15.5% increase for the year, this was the biggest driver of the overall gain. The second-largest reinsurance line is engineering.

Reinsurance continued to outperform the rest of the sector in 2017, with premiums rising 6.9% y-o-y in the first six months, compared to overall insurance premiums declining by 3.2%. Early 2017 saw SAA and CASH sign an agreement governing cooperation and competition for large clients. Among the aims of this initiative – the first such arrangement in Algeria – is for the insurers to share risks through co-assurance and utilise domestic reinsurance capacity to lessen the reliance on international reinsurers.

FINANCIAL PERFORMANCE: According to the MoF in its latest review of the sector, “Activité des Assurances en Algérie” for 2015, profits totalled AD11.9bn (€98.7m) across the insurance and reinsurance industry that year, essentially flat on 2014, and represented an aggregate gross margin of 7.8% of premiums. Overall costs came to AD33.4bn (€277m), representing 22% of premiums and a 5% increase over 2014. At AD16.9bn (€140.2m),
Covering all angles

Mohamed Benarbia, General Manager, Salama Assurances Algeria, on the growing role of insurance in the country

What opportunities does the diversification of the Algerian economy present for the sector?

**BENARBIA:** It implies a growing role for the non-hydrocarbons sector, especially in agro-industry, industry, services and agriculture. There are many steps on the way to achieving this diversification. We need new plants, production units, and infrastructure such as roads, railways and ports. This dynamic creates risks that need to be covered by insurers in sectors such as construction and transport. Financing also needs to be covered by insurance. In addition, the jobs that will be created will increase purchasing power and foster demand for health insurance.

Lately, the most promising evolutions have been observed in engineering, cargo and equipment transport, and plant construction coverage. Soon agricultural and personal insurance will also grow.

How much potential do you think *takaful* (Islamic insurance) has in the Algerian market?

**BENARBIA:** Takaful has enormous potential in Algeria, considering the current penetration rate of insurance in the country remains very low, and stood at just 0.76% in 2015.

Non-insured risk has its origin in the rejection of classic insurance by part of the population. These potential policyholders, in the event of not being able to subscribe to a transparent takaful system, will only take out mandatory insurance, and even then only in a partial fashion.

In order to secure the harmonious development of this segment, we will need a legal framework that takes into consideration the three Islamic finance pillars: Islamic banking, Islamic capital markets and takaful. There should be a dedicated part in the next insurance law for the latter that addresses the differences between takaful and classic insurance, as well as allowing law makers to act quickly when needed in order to adapt the legal framework.

What stage is agricultural insurance currently at?

**BENARBIA:** The level of maturity of the agricultural insurance in Algeria remains very low, mainly due to the fact that premiums only come from mandatory policies required by the administration to get state subsidies, and from the requirement of financial institutions that grant loans to farmers.

To ensure greater diffusion and increase the penetration rate, we need to offer policies that aim to cover every agricultural sector, rather than being limited to a few strategic ones. Farmers should be taught to endorse risk management, based on a limitation of state compensation to calamitous damage. Instead there should be a system of state premium subsidy to cover climatic and sanitary risks through a public-private partnership. This would dramatically reduce the costs of covering those risks.

There should also be a central structure under the supervision of the Ministry of Agriculture that frames national policy towards agricultural insurance. The aim should be to extend subsidies to every sector and to organise coverage more efficiently.

How could the sector support the development of small and medium-sized enterprises (SMEs)?

**BENARBIA:** SMEs in Algeria all face the same challenges: weaknesses in both human and financial means. The insurance sector has to help them to strengthen their capacities. Insurers enable SMEs to be eligible for bank loans by reducing risk through appropriate coverage, and allowing SMEs to acquire equipment and upgrade their human resources. Insurers also increase SMEs’ lifespans through suitable tariffs and risk-management capabilities, and can develop new solutions that answer future needs, by pooling human and financial assets by sector, which SMEs cannot do individually. Insurers also help by mobilising financing resources from banks and capital markets to support SMEs’ investment needs.
Achievements & commitments

- A recognized experience in the oil and gas industry
- A global pioneer in the LNG industry
- An internationally oriented development
- A Committed human resource
- A socially responsible company

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Energy

Legal reforms aim to attract more foreign investment
Renewable power generation gets boost from solar
Increased efficiency to meet rising electricity demand
Exploration and production activities gather pace
Targets set for refining and processing capabilities
Unlocking potential

Major investments are focused on increasing sector turnover and enhancing activities along the value chain.

Like most of the world’s producing countries, the glut in global oil supply and the subsequent collapse in prices has had a deep impact on Algeria’s economy, which has seen hydrocarbons revenues – for which state finances remain heavily dependent – sharply decline and foreign interest dampen. This, combined with maturing production at the country’s main oil and gas fields, has encouraged Algeria to consider new approaches with regards to its hydrocarbons potential. As output has remained more or less constant, efforts are currently under way to boost the sector’s turnover in the coming years, with plans to enhance activities all along the value chain.

To that end, in October 2017 Algeria announced plans to invest $78bn in the hydrocarbons sector between 2017 and 2021, with the largest share to be devoted to surveying and exploration. The plan aims at safeguarding and meeting domestic energy needs while boosting export revenues. It also targets the expansion of exploration activities with the goal of increasing hydrocarbons reserves and enhancing national output for oil and gas in the medium and long term. In an attempt to meet increasing domestic demand for energy products, additional investments will be directed at strengthening the country’s processing and refining capacities.

REVENUES: Energy earnings make up over half of government revenues and around 95% of exports. As a result, the collapse in oil prices has had a significant impact on the overall economy on the back of declining export revenues, which have dropped to around half of their value compared to 2014. Indeed, hydrocarbons exports fell from $58.4bn in 2014 to $27.7bn in 2016. For the first nine months of 2017 energy exports reached $24.4bn, up 19% compared to the same period in 2016, and accounted for 94.66% of total exports. By year-end, this figure is expected to rise to $31bn according to projections unveiled to the press by Algeria’s minister of finance, Abderrahmane Raouya. This marginal recovery in export revenues saw the trade deficit contract by 40% to $7.3bn (€6.2bn) through to September 2017. In 2016 it had widened to $20.4bn, up from $18.1bn a year prior, while the current account deficit grew considerably from 4.4% of GDP in 2014 to 16.9% in 2016.

Authorities have strived to bring about adjustment to the country’s ailing finances through currency devaluation, import restrictions and the phasing out of subsidies; however, their effect has been modest, and oil prices are likely to remain the key determining factor in the sector’s contribution to economic growth in the short and medium term (see Economy chapter).

As of December 05, 2017 oil prices were trading at $57.17 per barrel, down from $114 in June 2014. BALANCING SUPPLY: In an attempt to drive down the excess in global oil supplies and rebalance prices, an accord – also known as the Vienna Agreement – was struck in December 2016 between OPEC and 11 non-OPEC members to cut production by 1.8m barrels per day (bpd) in the first half of 2017. During the bloc’s most recent policy meeting in November 2017, the supply restraint deal was extended to run through to the end of 2018. This decision was perhaps influenced by projected trends in demand for oil and petroleum products, which, according to the Paris-based International Energy Agency (IEA), are set to increase. Indeed, global oil demand is expected to grow at a faster pace than anticipated in 2017, with the IEA increasing its estimates for the year to 1.6m bpd, or 1.7%. Moreover, the agency expects to see global demand for crude oil rise by a further 1.4% in 2018.

UPSTREAM PERFORMANCE: While exploration and production (E&P) activities in Algeria’s hydrocarbons sector are mainly carried out by the country’s state-owned oil and gas company, Sonatrach, most of the world’s major energy firms have operated to some extent on Algerian soil. Recent years, however, have met with a slowdown in E&P activities, primarily on
the back of declining oil prices, which has affected profitability and the cost of doing business in Algeria. Currently, ongoing projects are generally those for which agreements were concluded prior to 2014. This trend is not particular to Algeria but rather one that has been witnessed across most oil-producing countries as investors decreased the budgets that have traditionally been allocated to E&P activities.

In Algeria’s case, a number of other factors – both local and external – have contributed to the downturn. The legal framework governing hydrocarbons has long been regarded as impeding. Despite several attempts to reform the law, its terms remain a deterrent for foreign investors and have caused the country’s last two bidding rounds to prove fruitless (see analysis). Considerations are currently under way, however, to reform existing legislation in a bid to stimulate foreign investment, with a first draft expected by June 2018, according to statements made to the local media by Mustapha Guittouni, the minister of energy. The new law is expected to bring about additional tax incentives and simplify bureaucracy. Although, the 51:49 foreign investment cap will remain untouched.

Another challenge for Algeria’s hydrocarbons sector are the multiple discoveries that have been made across Africa in recent years, such as the Zohr gas field in Egypt, which have driven interest elsewhere. “The trend in E&P has been to go toward areas that present the least risk due to the current price of the barrel,” Arezki Hocini, president of the state’s oil licensing body, the National Agency for Hydrocarbons Resources Valorisation (Agence Nationale pour la Valorisation des Ressources en Hydrocarbures, ALNAFT), told OBG. “Companies have decreased their budgets and we have had to adapt.”

EXPLORATION: While foreign investors have shied away, Sonatrach has maintained its investments with plans to inject upwards of $50bn in E&P between 2016 and 2021. This is expected to see annual output exceed 230m tonnes of oil equivalent (toe) by 2021. As of September 2017, 26 new fields had been discovered, mostly to the north and south of the country, accounting for an estimated 130m toe. The field count is expected to exceed 30 by the end of the year.

There have been a significant number of exploration projects in Algeria, though most of them, particularly over the past 10 years, have been led by Sonatrach. This can largely be explained by the lack of potential partnerships in this field, which have been harder to come by on the back of constraining regulation and the more recent decline in profitability.

As a result, the country’s national energy firm had to step up its efforts to meet sector targets by boosting output and exports to offset any potential decline in production in the face of dwindling foreign interest and depleting reserves. With two-thirds of its territory currently unexplored, Algeria holds significant untapped potential in that regard. In 2017 ALNAFT commissioned a complementary research study to explore its hydrocarbons potential particularly in the largely untouched offshore fields in the northern area.

OFFSHORE: While Algeria has not established any large-scale offshore activity since the 1970s, the sector possesses a great deal of potential according to the president of ALNAFT. “We have launched a call for expression of interest. Although no agreement has yet been signed, several major companies have expressed interest in carrying out the required studies, and accords to that end are expected to be concluded in the very near future,” Hocini told OBG.

According to local media reports, Sonatrach is carrying out discussions with Italy’s Eni, and American firms ExxonMobil and Anadarko to start offshore drilling. Encouraged by other successful Mediterranean discoveries and by its favourable climate, offshore exploration is also seen as a more accessible and affordable alternative to exploration in the south of the country, according to Hocini.

OIL: According to BP’s “Statistical Review of World Energy 2017”, Algeria’s total proved oil reserves as of end-2016 stood at 12.2bn barrels, making it Africa’s third largest behind Libya (48.4bn barrels) and Nigeria (37.1bn barrels). Hassi Messaoud is the country’s largest oilfield with a crude output of around 500,000 bpd, accounting for around one-third of the national total. Other producing fields include Ourhoud, Hassi Berkine, El Merk and Bir Seba. Low global oil prices, tough contractual terms and stringent legislation have resulted in a reluctance on behalf of foreign companies to invest in the oil sector in recent years.

As a result, Sonatrach has sought to forge bilateral agreements with foreign partners as a way to keep up with its target of boosting crude oil output by 14% by 2019 (see analysis). The state-owned company has also been prompted to divert attention to optimising output in currently producing and maturing fields to offset any potential decline in production. Previously estimated at 1.1m bpd, output in the country’s fields has seen a reduction of 50,000 bpd, in accordance with the Vienna Agreement signed in December 2016.
The government is looking to increase natural gas output by 13% by 2019.

GAS: At the end of 2016 Algeria’s total proved natural gas reserves stood at 4.3trn cu metres, the second-largest in Africa after Nigeria (5.3trn cu metres), according to BP. The country ranked first, however, in terms of output, with a return of 91.3bn cu metres for 2016. In the face of rising local demand – domestic consumption swallowed up 40bn cu metres in the same year. The government is looking to increase its natural gas output by 13% by 2019.

The bulk of Algeria’s natural gas production comes from the Hassi R’Mel field in the wilaya (province) of Laghouat, with estimated reserves of around 2.4trn cu metres. The remainder of the producing fields are located predominantly in the south and south-east of the country. Sonatrach saw gas production start at two new fields in 2017 with a combined capacity of 20m cu metres. Three major gas sites located in the wilaya of Adrar are also due to come on-line in the near future as part of the Sonatrach funded South-West Gas Project (SWGP). Comprising a total of seven fields, the SWGP aims to increase annual gas production by 16bn cu metres by 2018. The first is the Reggane North project, which is being carried out with Spain’s Repsol and is expected to produce 8.2m cu metres of gas per day and 148 bpd of condensates once operational at the end of 2017. Next in line are the Timimoun and Touat projects, which are both due in the first quarter of 2018 and are being developed in partnership with French firms Total and Engie, respectively.

PIPESLINES: With the anticipated increase in gas output, Algeria also plans to enhance its gas transportation capacity by 18.3bn cu metres per year by 2019. Algeria’s natural gas is transported through three transcontinental pipelines with a combined annual capacity of 54bn cu metres. These include Enrique Mattei, connecting to Italy via Tunisia; Pedro Duran Farell, connecting to Spain; and MEDGAZ, which also connects to Spain and Europe. Plans are under way to boost the latter’s capacity from its current 8bn cu metres per year to 10bn cu metres. In 2016 Algeria’s pipelines transported 37.1bn cu metres of gas, up from 26.3bn cu metres a year prior.

GAS CONTRACTS: Sales of gas have traditionally been governed by long-term contracts with European partners, often exceeding 25-year agreements indexed to oil prices. Algeria, however, is now looking at renegotiating such contracts – most of which are due to expire by 2021 – and explore more flexible opportunities for the marketing of its gas in line with evolving trends in demand and supply. These would potentially include contracts of 10 to 15 years and spot contracts, enabling the country to benefit from growing global demand. In 2016 Algeria exported 53.1bn cu metres of gas, up from 44.3bn cu metres in 2014.

Speaking at the Oil & Money 2017 conference in London in October, Sonatrach’s CEO, Abdelmoumen Ould Kaddour, suggested creating joint ventures with trading companies that would not be indexed based on oil prices. According to Nabila Metref, head of commercialisation at Sonatrach, “Despite fluctuating hydrocarbons prices, Algeria has always heavily invested in its oil and gas value chain, with its current diversified export transit capacities including pipeline transportation and liquefied gas plants. Combined with the country’s strategic geographic position, this natural gas/liquefied natural gas (LNG) flexibility allows Sonatrach to quickly react to cover international demand by boosting gas exports to Europe via pipeline and supplying LNG to other markets, such as those in the Middle East, Asia and Latin America.”

RECOVERY: With most of Algeria’s hydrocarbons derived from mature and depleting fields, and in line with its ambitions to boost output, a greater focus is being placed on the need to optimise production, notably through the use of enhanced recovery technology. To that end, Sonatrach is looking to partner with foreign investors to collaborate in matters of know-how and technology transfer, with a number of service contracts having already been concluded.

In 2016, for instance, the company awarded a $339m contract to Global Japan Corporation to enhance production at the Hassi Messaoud oilfield. Moreover, a
Owner value is created by reducing costs and producing at potential

Petroceltic is a dynamic privately held oil and gas company led by expert senior management with operating assets in Europe and North Africa. The current management team has had a transformative effect on production and large-scale project development.

Petroceltic has existing oil & gas production from Bulgaria and Egypt, a large gas development project in Algeria and exploration activities in Italy. The Company’s principal focus is on delivering the world class Ain Tsila gas/condensate development project in Algeria.
DuPont Photovoltaic Solutions materials delivers proven power and lasting value, day after day.

Demand for solar energy is expected to grow at an average rate of 15% over the next five years. As populations and economies continue to expand, faster and broader adoption of solar will be required to meet our renewable energy needs. But it won’t be enough to merely fill the increasing demand. The world needs dependable energy that’s as reliable as the Sun itself.

Our commitment to innovation and field-testing has helped us create PV materials that stand the test of time, transforming solar into a viable commercial energy source for the new energy economy.
project led by Sonatrach at Hassi Messaoud is currently under way to recover gas for the first time at this oilfield, with production expected to begin before the end of the year, delivering 10m cu metres of gas daily. “Recovery efforts carried out by Sonatrach in the country’s maturing fields have started to bear their fruit,” according to François Lagardère, country manager at Engie. “The question that lies ahead, however, is how to utilise these recovered resources.”

Recent projects have been launched to support the state-owned firm’s intentions to market part of its recovered wealth. In September 2017, for example, plans were announced for a more than €140m flare gas recovery project led by Sonatrach at Hassi Messaoud, to recover 17m cu metres of flare gas per day, destined for re-injection into the field to enhance productivity. A similar unit was also set up in the Rhourde El Baguel gas field in September 2017. This plant is expected to recover 17m cu metres of flare gas per day with 6m cu metres destined for exports and 11m cu metres to be re-injected back into the field to enhance productivity.

**SHALE GAS:** A growing debate has surrounded the potential development of shale gas in recent years. Algeria is estimated to have 20trn cu metres of technically recoverable shale gas resources, according to the US Energy Information Administration, representing the third-largest reserves in the world after China and Argentina. On the other hand, efforts to explore the resource by Sonatrach in the Ahnet Basin in 2014 caused conflict with environmentalists and the local population living in the area. The matter has also divided policy makers, with former energy minister Noureddine Boutarfa, for instance, announcing that there was no immediate need to develop shale gas and continue the exploration and development of shale gas.

**LNG:** Algeria has two liquefaction centres located in Arzew (46m cu metres per day) and Skikda (10m cu metres per day). Installed capacity is significant, yielding more than 5% of the world’s total liquefied natural gas (LNG) exports. The industry exports just over half of its output annually, which in 2016 accounted for 15.9bn cu metres, down from 16.6bn the previous year.

To strengthen its LNG shipping capacity, Sonatrach, via its subsidiary Hyproc Shipping Company, acquired two new tankers in 2017, each bearing a capacity of 169,000 cu metres, bringing the company’s total fleet to eight LNG tankers, six liquefied petroleum gas tankers and two bitumen carriers. The purchase was the first of its kind since 2008 and is expected to help accommodate the future expansion of the industry.

**REFINING:** Algeria also aims to expand its downstream sector to enhance activities along the value chain. In addition to the five oil refineries located in Adrar, Arzew, Algiers, Skikda and Hassi Messaoud, the authorities intend to add four new plants, bringing the output of refined petroleum products to 50m tonnes per year by 2040.

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The government aims to achieve 22 GW of installed renewable generation capacity by the year 2030.

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**Oil indicators, 2006-16 (000 bpd)**

- **Production**
- **Consumption**

Source: BP Statistical Review of World Energy 2017

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Algeria is estimated to have 20tn cu metres of technically recoverable shale gas resources, representing the third-largest reserves in the world after China and Argentina.
The outlook with regard to hydrocarbons output is likely to remain unchanged in the immediate term, while projects in E&P continue to be carried out. “The challenge that lies ahead of Algeria is to maintain production in its energy sector while enhancing productivity and efficiency,” GE’s Fredj told OBG. Digitising operations throughout the value chain is certainly one way to help achieve that goal. In addition to the much-anticipated reform of the hydrocarbons law, investors will be assisted in their decision-making by a database compiled by ALNFTA since 2007, which pertains to a variety of activities in the energy sector and is expected to launch in 2018. Moreover, government plans to bring about structural changes to the national oil and gas company also bode well for the future of the sector, though specific details of the changes to be brought about were yet to be unveiled at the time of writing.
Priority axis

Abdelmoumen Ould Kaddour, CEO, Sonatrach, on working with public and private sector actors to build industry

What is Sonatrach’s investment plan in terms of exploration and production for the years to 2022?

OULD KADDOUR: Sonatrach aims to strengthen Algeria’s energy potential, and fulfill the needs of national and international markets. Sonatrach’s medium-term plan for development outlines total investments of $56bn, of which $44bn will be dedicated to exploration and production. In terms of exploration, we aim to develop Algeria’s underground, which is currently underexplored, having an average density of below 20 wells per 10,000 sq km. Our activities will focus on drilling 80 wells per year and operating seismic surveys to generate qualitative prospects. We are hoping for 8,500 km per year of 2D and over 20,000 km per year of 3D seismic surveys. Regarding production, our company is looking to increase investment in natural gas, as we are expecting to commission gas fields located in the south-west. In cooperation with our partners, we are bringing fields on-stream in Touat, Reggane and Timimoun in the short term. Other gas fields in the areas of Tinhert, Hassi Mouina and Hassi Ba Hamou will come on-line before 2022. These projects will increase our production capacity and allow us to maintain our exports around 100 tonnes of oil equivalent while fulfilling growing domestic energy needs.

What are Algeria’s goals in regards to the development of a petrochemicals industry?

OULD KADDOUR: Algeria aims to diversify its downstream portfolio in order to increase feedstock value, and boost the local economy in terms of wealth and job creation. The emergence of a petrochemicals industry is a priority axis for achieving this, as it will enable the country to become a global actor in petrochemicals and will lead the way for the emergence of local industry. In that regard, Sonatrach offers win-win partnerships with interested parties. For the 2018-22 period, eight main projects are being developed, five of which are partnerships to run in Arzew, as an ethane/liquid petroleum gas steam cracker facility, a propane dehydrogenation/polypropylene facility and a methanol facility; and in Skikda, as a polyester production facility. All of these are planned to be brought on-stream in the medium term.

Where do you see Sonatrach by 2030?

OULD KADDOUR: Our ambitions for 2030 are directly inspired by large-scale changes in our sector, such as the evolution of the competitive environment. Sonatrach must embark on a major transformation to meet existing challenges. To this end, we launched the SH2030 Leading the Change project, which will enable us to define priority initiatives for the coming years. After making strategic choices, we will launch operational improvement projects to strengthen our performance. A diagnosis covering all of the company’s activities has already been carried out. We are now in the process of developing the first steps to be taken.

How can Algeria benefit from its potential offshore and unconventional resources?

OULD KADDOUR: Algeria has potential offshore hydrocarbons resources that have been defined through seismic data, with two main geographical areas determined as priorities. Regarding shale gas, Algeria has the third-largest technically recoverable reserves in the world, with over 707trn cu feet. Algeria’s competitive advantage in shale gas development needs to be built up through more equipment and supply chain investments. We are also seeking to gain know-how by partnering with experienced international companies that are versed in processes such as horizontal drilling and hydraulic fracturing, among others. Ensuring the profitability of such projects will be challenging with current gas prices; therefore, the main benefits will first be job creation and the development of Algeria’s southern regions. Shale gas exploitation will develop logistics, transport and proppant sand production services, as well as support drilling equipment manufacturers.
The first draft of revisions to the legal framework governing the hydrocarbons sector is expected to be published in June 2018.

State-owned oil and gas company Sonatrach has plans to invest upwards of $50bn in exploration and production between 2016 and 2021.

The collapse in global oil prices has caused international interest in exploration and production (E&P) activities to slow down. Yet, Algeria has maintained its determination to boost its hydrocarbons sector, with plans targeting an increase in oil and gas output by 14% and 13%, respectively, by 2019. To keep up the momentum in the face of declining foreign interest, state-owned oil and gas company Sonatrach has plans to invest upwards of $50bn in E&P between 2016 and 2021.

**SLUGGISH INTEREST:** The collapse in global oil prices in 2014 has affected foreign investment in Algeria’s hydrocarbons sector; however, the scarcity in interest had already manifested itself a few years prior, after a 2011 licensing round saw just two out of 10 permits on offer awarded. Similarly, in 2014, only four out of 31 contracts were awarded. Since then, no licensing round has taken place, although according to the National Agency for Hydrocarbons Resources Valorisation, the state’s oil licensing body, details of an upcoming bidding round are currently being devised.

**LEGAL REFORM:** The limited interest encountered in the country’s upstream bidding rounds can be partly attributed to the legal framework governing the hydrocarbons sector. The country’s most recent attempt to loosen regulation dates back to 2013, though the outcome has proved fruitless.

New considerations, however, are under way, with the country’s minister of energy, Mustapha Guitouni, announcing a first draft would become available in June 2018. Addressing the local media in October 2017, he asserted that there will be no changes to the 49:51 foreign ownership ceiling, but that additional tax incentives to reflect current oil prices will be brought on board. Income tax on oil revenues is also expected to be revised and determined according to profitability rather than turnover. In the face of falling foreign investment as well as declining hydrocarbons revenues, regulatory reform has become widely acknowledged as a pressing matter. The much-anticipated changes will aim primarily at making Algeria’s hydrocarbons sector more competitive for and attractive to foreign investors, especially in the field of E&P.

**CONSOLIDATING PARTNERSHIPS:** In the meantime, with the view of supporting production goals, as well as attracting technology and know-how, Sonatrach has sought to consolidate ties with its existing partners through bilateral agreements. In May 2017 Sonatrach and France’s Total concluded a deal to add upstream projects to their partnership, to reinforce joint activities at the Tin Fouye Tabankort gas field and review their agreement in regards to the Timimoun project. In June 2017 Sonatrach and Italian energy firm Eni signed a number of agreements to solidify their ongoing collaboration in E&P activities and enhanced recovery methods to boost output in the country’s maturing fields. Similarly, in the same month, Sonatrach and Spain’s Repsol struck a deal underlining their continued collaboration in energy exploration. In September 2017 Sonatrach inked a deal with six historical partners, namely Anadarko, Cepsa, Eni, Maersk, Pertamina and Talisman, to consolidate upstream activities in its Ourhoud field. Lastly, in October 2017, presidential decrees were adopted allowing the conclusion of plural E&P contracts, and included an amendment binding Sonatrach and Eni extending their activities in Zemoul el Kbar by another five years.

The reform of the hydrocarbons law is expected to breathe new life into the industry and simplify investment procedures. “There are some current discussions around the offshore opportunities that Algeria offers. Two international companies have already signed agreements to use a package of data with detailed seismic analyses,” Salah Mekmouche, vice-president of E&P at Sonatrach, told OBG. “For Algeria, offshore activities should kickstart in the second semester of 2018 with the reception of the first project proposition. The national oil firm is looking forward to partnering with those that have the needed skills and knowledge.”
The balance of power

Tobias Becker, Senior Vice-President and Africa Director, ABB, on diversifying energy sources and boosting efficiency

What are the main challenges to improving energy efficiency in African markets?

BECKER: In quite a number of African countries, electricity fees do not accurately represent production costs. This is not a strong incentive to improve energy efficiency, which is a shame. The current level of affordability is preventing players from investing in more sophisticated power equipment and infrastructure, even though the payback from these investments would be reasonably fast.

Furthermore, there is a lack of awareness about energy efficiency among public bodies in Africa. The private sector needs to explain to African officials the long-term advantages of investing in energy efficiency solutions. On a positive note, the low commodity prices have forced a number of governments to look towards more eco-friendly sources and cost-representative tariffs. Mindsets are therefore evolving, even if there is also a short-term counterargument caused by the lower cost of gas and diesel, which are still used to run power stations. However, the 30% decrease in hydrocarbon prices has created a backlash lately, distracting decision makers from finding long-term solutions.

How do Algeria’s renewable energy assets compare with the rest of the continent?

BECKER: The fact that the country possesses significant hydrocarbon resources means it can build industries and infrastructure that can sustain a modern society without burning all of its natural resources. The huge amount of gas reserves is a fantastic asset, so it is logical that Algeria uses gas for power generation and petrochemical production. Today, 50% of gas production is consumed locally. Using renewable energy should be the next step, especially since Algeria has an abundance of sunlight. With the Atlas and Hoggar mountains, the wind power potential is also vast, and there is no reason for the country to not become a net exporter of renewable energy in the near future.

What investments should Algeria prioritise to help balance its energy mix?

BECKER: I believe the secret is to achieve a balanced mix of solar, wind and biomass projects, in addition to improving natural gas power generation. Starting with investments in solar power makes the most sense, as that would align best with Algeria’s natural assets. There are already steady levels of power generated from gas, which is a very agile and flexible commodity that can be easily combined with more fluctuating inputs from renewable sources to deal with consumption peaks. Solar also offers the advantage of being quick to roll out, as well as cost effective. I would then prioritise biomass production, which is a storage form of renewable energy that can take over power generation from solar at night.

How can companies reduce their energy consumption, and what kind of reduction is feasible?

BECKER: When we talk about energy efficiency, people think about LED bulbs and lighting reduction, but actually only 2% of all generated electricity is used for light, while 60% is used for industry. It is especially important to keep this in mind for a country such as Algeria, which relies greatly on heavy industry. The country could easily improve its energy consumption figures through high-efficiency motors and power electronic drive systems.

There is still a lot more that could be done in Algeria and across the continent in terms of optimising the use of motor applications. What is often underestimated, as it is not as visible in hydrocarbon industries, is that efficient control systems and processes are among the most effective ways to save energy. With the right technology and practices, companies can reduce energy consumption by 15%.
In line with rising demand for electricity, Algeria has invested significantly in its power sector over the past 10 years, with projects primarily carried out by state-owned power company Sonelgaz and its subsidiaries. Major upgrades embracing enhanced technologies have also been brought on-stream; however, there remains a pressing need to further optimise production and reduce consumption to keep up with demand.

**CONSUMPTION TRENDS:** Power demand in Algeria increased by an annual average of 6.6% between 2005 and 2015, driven mainly by better living standards and demographic and economic growth. This upward trend is expected to continue, though authorities are increasingly more aware of the need to cut down on wasted resources and rationalise consumption habits on the back of slowing gas output and exports — the main feedstock for electricity production — and its subsequent impact on government finances. According to Akli Brihi, Maghreb cluster president at Schneider Electric, one of the most troubling issues facing the sector is the amount of power that goes to waste due to overuse. “Significant amounts of energy are wasted in Algeria because of the low price of electricity. People are not challenged at all in the way they consume energy. There are efforts to promote awareness and responsible use, but positive results are still far off,” Brihi told OBG.

To promote efficiency, technology upgrades and long-term operations and maintenance services are coming to 10 Sonelgaz plants with a combined installed capacity of 11 GW.

**TARIFFS & SUBSIDIES:** Part of the problem is that electricity in Algeria remains heavily subsidised, despite efforts in recent years to increase tariffs. Indeed, new electricity prices were applied in 2016 by the country’s Regulatory Commission for Electricity and Gas, which divided bills into four categories. The first two categories apply to low-electricity users, or those who consume between 0-125 KWh and 125-250 KWh per quarter, while the last two categories pertain to high-electricity consumers, including users of 250-1000 KWh per quarter and those whose consumption exceeds 1000 KWh. These new tariffs are aimed at increasing electricity bills for the last two categories by 15.15% and 31.13%, respectively, without affecting low-income households. Regardless of these recent hikes, Algerian consumers still pay some of the lowest rates worldwide, with the heaviest electricity users billed at AD4 (€0.03) per KWh, compared to AD14 (€0.12) in Tunisia and AD15.98 (€0.13) in Morocco.

**EFFICIENCY:** Another tactic relates to upgrading and supplying the power generation market with new technologies and services, especially as the country aims to double its installed electricity capacity to 30 GW by 2020 (see overview). “The electricity sector in Algeria is at an important turning point, with increased focus on disruptive technologies and production optimisation,” Touffik Fredj, president and CEO for North-west Africa at General Electric (GE), told OBG. With respect to this, Algeria has made significant progress over the years. From a production perspective, it has seen many upgrades, from simple to combined-cycle power plants, which are expected to result in higher output and lower gas consumption. In addition, mid-2017 saw a deal finalised between Sonelgaz SPE – a subsidiary of Sonelgaz – and GE Power, which will bring long-term operations and maintenance services to 10 Sonelgaz plants with a combined capacity of 11 GW. Furthermore, technology upgrades are forecast to deliver an additional 420 MW of capacity. This should boost productivity and efficiency while saving up to $2bn in gas.

To bridge the production gap and better meet demand, efforts to enhance capacity in the coming years should help breathe new life into the sector. In the short to medium term, natural gas will remain necessary for electricity generation, however, renewables, especially solar, are expected to play a more prominent role in this regard in the longer term (see analysis).
Solar ambitions

A renewable energy focus is taking shape with the announcement of a slew of photovoltaic projects

Faced with dwindling oil and gas revenues, rising domestic consumption and growing environmental awareness, solar energy has come to occupy a more prominent role in the development of the country’s energy mix in recent years. Testament to this are government plans to develop a 4-GW solar project.

INFRASTRUCTURE: First announced in March 2017, the project will comprise six solar plants to be installed at different sites across the country. It will be parcelled into three separate packages of 1.3 GW and tendered to three different candidates under power purchasing agreements spanning at least 20 years.

Sonatrach, Algeria’s national oil company, is expected to retain 40% of the venture while state-owned utility Sonelgaz and other public and private local companies occupy the remaining 11%. The project also requires that potential investors participate in the development of a local industry for solar power plant components, including photovoltaic (PV) panels.

SOLAR POTENTIAL: As the biggest country on the continent and with the Sahara desert occupying 75% of its territory, Algeria boasts undeniable potential for the development of solar energy, especially in the south, where insolation rates are as high as 2650 KWh per sq metre. As a result, Algeria expects to generate 37% of its electricity needs from solar by 2030, as outlined in the National Development Plan for Renewable Energies, which aims to achieve an installed renewable generation capacity of 22 GW by 2030, with solar accounting for 13.5 GW (see overview). Currently, 93% of Algeria’s power generation needs are met with natural gas, with demand for electricity having increased by an annual average of 6.6% between 2005 and 2015, on the back of demographic and economic growth (see analysis).

EXPANDING CAPACITY: Consequently, several renewable energy projects have since seen the light of day, bringing the country’s overall number of solar plants to 23. These include Hassi R’Mel’s combined solar thermal power plant, the country’s largest to this point, which first began operations in 2011 and has an output of 25 MW of solar power and 130 MW of combined-turbine gas production. Additionally, in 2015, 14 PV plants became operational, bringing with them a total capacity of 268 MW to the Hauts-Plateaux region and across the south. More recently, in May 2017, a 3-MW solar plant was installed in Djanet in the wilaya (province) of Illizi, and in September 2017, Ain El Melh in the M’Sila wilaya also welcomed a new 20-MW PV plant.

CONSOLIDATION: To further support sector ambitions, a new solar energy cluster was set up in 2017 to host small and medium-sized solar enterprises, the state-owned Centre for the Development of Renewable Energy, local mining companies and representatives from the Ministry of Energy. The cluster looks to foster stronger ties between sector operators and consolidate activities throughout the value chain.

CHALLENGES: While more modest-sized projects continue to come on-line, the outlook for the 4-GW solar project remains somewhat ambiguous. Tenders are yet to be launched, and, according to Akli Brihi, Maghreb cluster president at Schneider Electric, there remain some technical and financial issues to be resolved in order to make the offer attractive to investors. “It is critical that Algeria invests heavily in renewables in order to preserve its conventional resources. However, to attract investors, we need to put forth an attractive offer as well,” Brihi told OBG. “For instance, the project framework in all its aspects needs to be clearer, including how it is going to be profitable for investors.” Moreover, unlike thermal solar, PV is a fast evolving technology and the life span of a given plant is around 25 years. Consequently, as renewables require large investments, there needs to be a long-term vision and approach that will take into account factors such as recycling – considering that solar panels are 95% recyclable. More can also be done off-grid to better connect the south, where the largest share of solar projects are established, to the rest of the country.

The government aims to achieve an installed renewable generation capacity of 22 GW by 2030, with solar power expected to account for 61%, or 13.5 GW, of this total.

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Many of the key building blocks for a successful industrial sector, including abundant energy reserves and mineral raw materials, well-developed infrastructure, and proximity to major export markets are present in Algeria. Despite this, the economic contribution of industry is relatively small.

However, some segments such as agri-business are comparatively well developed, and activity in heavy industrial subsectors, including steel and cement production, is growing quickly. Furthermore, authorities are working to increase industrial output as part of ongoing efforts to diversify the economy and encourage foreign investment. This has included establishing incentives for domestic manufacturing firms, as well as restrictions on imports, which have been met with considerable success.

**ECONOMIC CONTRIBUTION:** The government is continuing work to increase the role of industry in the economy amid lower oil and gas prices. Industrial output had a value of AD972.5bn (€8.1bn) in 2016, equivalent to 5.6% of total GDP and 6.8% of non-hydrocarbons GDP. These figures compared to 5.4% of total and 6.6% of non-hydrocarbons GDP the previous year. In line with government development plans, industry's share of economic contribution is rising, though this is partly a result of the decline in the value of oil and gas in recent years.

According to figures from the National Statistics Office (Office Nationale des Statistiques, ONS), industry grew by 3.8% in real terms in 2016, putting it ahead of both total GDP growth of 3.3% and non-hydrocarbons growth of 2.3%. In the first quarter of 2017 year-on-year (y-o-y) sector growth was 3.3%, compared to GDP growth of 3.4% and non-hydrocarbons expansion of 2.5%. This figure rose to 3.7% in the second quarter, at which point overall growth was 1.5% and non-hydrocarbons growth was 2.1%.

The fastest-growing industrial segment in the second quarter of the year in annualised terms was wood, paper and cork at 10.1%, followed by water and energy (8.2%), and agro-industry (3.7%).

**ATTRACTING INVESTMENT:** With low oil prices imposing limits on state-led capital expenditure, the government is seeking to attract more private sector investment – both domestic and foreign – as part of more general economic diversification efforts, and to reduce the country’s import bill by stepping up local production.

To achieve this, authorities have taken several steps to encourage and facilitate investment in manufacturing. Prominent among these were measures in the 2015 Finance Law introducing five-year exemptions from taxes on corporate profits, corporate revenues and professional activities, as well as a 3% interest rate subsidy for bank loans for companies operating in a wide range of industrial segments, including steel and metallurgy, electrical and electronic goods, automobiles, aeronautics, pharmaceuticals, and agri-business.

In 2016 the country passed revisions to regulations aiming to incentivise investment. These included allowing foreign companies operating in Algeria to borrow from abroad, though this is limited to strategic projects and is considered on a case-by-case basis, and lifting foreign exchange surplus requirements. Efforts were also made to speed up the allocation of construction permits to investors.

In addition, the revised code provides incentives for eligible projects: all ventures, except those on a list of around 200 activities, are to be exempt from Customs duty for eligible goods and services imported as part of an investment project, value-added tax for goods and services used to establish an investment, property tax for 10 years, and registration fees. Other incentives include the state covering the costs of infrastructure work for some projects, evaluated on a case-by-case basis, and the provision of land in the Hauts Plateaux province and...
the south of the country for a nominal rent over a 10-15 year period. The previous year the government also increased the powers of regional governors to allocate land to investors. This served as a solution to one of the key challenges for industrial projects – a lack of appropriately zoned terrain.

In September 2017 the government announced plans to create 50 new industrial zones across the country, though this appeared to be little more than a re-announcement of previous plans, which date back to at least 2012 and have faced several delays. **RESTRICTING IMPORTS:** Authorities are combining these incentives with both formal and informal efforts to reduce imports of manufactured goods. These should work to limit the current account deficit and thus reduce pressure on foreign exchange reserves, in some cases with the explicit aim of spurring the development of local manufacturing capacity. This approach was first applied to pharmaceuticals production: in 2009 the import of medications that were able to be locally manufactured was banned. This model has been relatively successful in the sector, leading to increasing self-sufficiency in basic pharmaceuticals production.

The approach gained momentum after the 2014-15 downturn in oil prices and the accompanying deterioration of trade and current account balances, with Abdesselam Bouchezar as then-minister of industry and mining, under Prime Minister Abdelmalek Sellal, who served from September 2012 to March 2014 and April 2014 to May 2017. This administration was characterised by trade restrictions to boost local production. January 2016 saw the introduction of an import licence scheme for four products: automobiles, rebar, iron rods and cement. At the same time, permission for car distributors to continue selling vehicles was made conditional upon their establishment of local production activities.

Other more informal elements of the strategy include reported instructions to banks not to issue letters of credit for some categories of goods. This covers a wider range of sectors than the import licence scheme and effectively blocks imports in these areas. The government has also indicated to foreign companies that they should consider establishing production activities in the country.

The strategy appears to have been successful in altering the trade balance: the value of car imports fell from $5.7bn in 2014 to $1bn in 2016, while steel imports dropped by around 1m tonnes in 2016. Overall, imports fell by 9.6% y-o-y in 2016 to $46.7bn, and by another 2.6% during the first eight months of 2017. Between 2014 and 2017 the import bill for some of the products targeted was down by $56bn.

Authorities aim to reduce imports further: in April 2017 the licensing scheme was extended to another 20 items, bringing the total affected products to 24, and in late October 2017 Mohamed Benmeradi, the minister of trade, announced that measures including hikes on import duties would be taken to reduce the value of imports by another 25%, or $10bn, in 2018. He also said that the import of some products would be prohibited completely. Benmeradi did not provide a full list of goods that will be affected but told media that importation of some “non-essential” products – such as mayonnaise and chewing gum – would be blocked. In the automotive segment, rules banning the attribution of car distribution licences to firms that have not established local production facilities came into effect in January 2017, further incentivising local manufacturing activity.

**SEEING RESULTS:** The strategy appears to be yielding some results, at least with regard to the assembly of some products: several foreign car manufacturers have established joint ventures in the country to assemble vehicles locally. Local firms are also stepping up their activities in certain phases of the production of smartphones, which are also affected by restrictions (see analysis).

However, some observers argue that the model may not work well in industries in which the country does not have strong comparative advantages and cannot reach the economies of scale necessary to compete with major manufacturing bases such as China. In some cases, such as with smartphones, critics say foreign producers are disassembling finished products so they can be reassembled in Algeria, which adds to import costs, as suppliers charge extra to disassemble the products. There have also been complaints that such restrictions have led to the blockage of imports of inputs for certain sectors, stymieing local production efforts.

In order to address some of these concerns, the government is calling for rapid increases in integration rates of industries affected by the import restrictions. Authorities have also noted concerns regarding the potential for companies to veil imports under the guise of local production. In April 2017 Abdelmalek Sellal, then-prime minister, told local media that foreign car manufacturers could not...
Agro-industry is by far the largest segment of the industrial sector, accounting for 8.6% of national GDP and just under 40% of industrial GDP in 2016. In real terms, y-o-y sector growth was 5.6%, down from 5.9% in 2015. Agro-industry had the third-fastest growth rate in the industrial sector, after the wood, paper and cork industry, and construction materials. Growth fell to 4.6% in the first quarter of 2017 and to 3.7% in the second quarter of the year, according to ONS figures. The segment has witnessed real growth of more than 5% every year since 2011, peaking at 7% in 2013.

In an economy in which the state continues to play a key role, agri-business is also a notable example of a private sector success story. According to ONS figures, in 2016 private firms generated AD340.8bn (€2.8bn) of industrial sector value added, equivalent to 87.5% of the sector’s total output.

The most influential company in the segment is Cevital, Algeria’s largest private sector player. In addition to numerous local firms, international players are also active in the industry, including US-based Mondelez, which operates an LU biscuit factory, and Nestlé, which produces infant formula, instant coffee, powdered chocolate and dairy products. The latter firm also opened a new coffee and cereals production unit in Algiers in 2015.

The beverage industry also recorded notable growth in 2015 of 14%, according to figures provided to OBG by the Algerian Drinks Producers Association (Association des Producteurs Algériens des Boissons, APAB), an industry body with 33 members representing around 85% of the local market. The subsegment produces around 4.4bn litres of drinks per year, according to APAB figures from 2014. At 2.15bn litres, carbonated drinks account for around half of output, with bottled water production at 1.45bn litres. The majority of other output is of fruit juice and fruit-flavoured drinks. The beverage industry is performing in line with government plans to reduce the import bill: it covers the bulk of local demand – around 98%, according to APAB figures – and also has some exports.

PETROCHEMICALS: Despite its hydrocarbons wealth, the country lacks major petrochemicals and basic plastics production capacity, and remains heavily reliant on imports of such commodities. An industrial complex operated by state-owned hydrocarbons firm Sonatrach in Skikda that produced ethylene, polyethylene and polyvinyl chloride was considered small by modern standards and closed in 2014 after running below capacity for several years. The firm still operates a methanol plant in Arzew on the northern coast near Oran, which produced around 78,000 tonnes in 2013.

However, in January 2017 the firm awarded a contract to restore the 120,000-tonnes-per-annum (tpa) ethylene plant, auguring a revival in production. One month earlier Sonatrach also announced that it was in discussions with unnamed partners to license technology to construct a number of petrochemicals projects, including a 1m-tpa ethylene plant, a 600,000-tpa polypropylene plant, and a 1m-tpa methanol and methanol derivatives complex. Shortly afterwards, Sonatrach and French oil major Total signed a preliminary deal, under which

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Source: ONS

*based on previous year’s prices
Total would conduct a feasibility study for a modern petrochemicals facility in Algeria. The two signed a further agreement in April 2017 confirming the settlement of previous disputes, strengthening their partnership and enhancing cooperation in various areas, including petrochemicals. In December 2016 Sonatrach also signed agreements with contractors to undertake studies for a 75,000-tpa methanol plant to help expand its refining activities.

**FERTILISERS:** In contrast to petrochemicals, the country already has a robust fertiliser segment. Fertial – a joint venture between Spanish company Grupo Villar Mir, state-owned fertiliser producer Asmidal and private Algerian firm Entreprise des travaux routiers, hydrauliques et bâtiments Haddad (ETRHB Haddad) – operates ammonia fertiliser factories in Arzew and Annaba, with a 2.5m-tpa capacity, including an ammonia capacity of 850,000 tpa.

ETRHB Haddad acquired its 17% holding in Fertial from Grupo Villar Mir in November 2016, reducing the Spanish firm’s stake to 49%. Fertial produced below capacity at 705,000 tonnes of ammonia in 2016. This was partly attributable to blockages of exports around the end of the year, due to problems obtaining the proper authorisations. In 2014 the firm launched a five-year, €250m expansion programme to reduce production costs and raise ammonia capacity to 1.23m tpa.

Sonatrach and Netherlands-headquartered chemicals and fertilisers producer OCI also operate a fertiliser joint venture in the country, Sofert Algerie. The firm runs a gross anhydrous ammonia and urea plant in Arzew, with production capacity of 1.6m and 1.2m tpa, respectively, of the two commodities. In 2008 Sonatrach and Omani company Suhail Bahwan Group established a joint venture, the Algerian-Omani Fertiliser Company, for the production of ammonia and granular urea. The plant was due to be inaugurated in 2015 but has had several delays. However, in April 2017 Forbes Middle East reported that the facility was nearing completion.

**ELECTRONICS & HOUSEHOLD GOODS:** Electronics and white goods manufacturing is another notable industrial segment in the country. Major players include Algeria’s largest private company Cevital, which is active in the segment through its unit Brandt, a French firm acquired by Cevital in 2014, and Condor, a unit of the Benhamadi conglomerate. In mid-2016 Cevital announced plans to build an 8m-unit-per-year Brandt electric goods factory in Sétif, where it already operates another plant at a cost of €250m. The plant was scheduled to open in the first quarter of 2017, but by the end of 2017 there had been no reports of its inauguration.

A growing subsegment is the mobile and smartphone market, spurred by new restrictions on some device imports that have been applied as part of the wider move to limit purchases of manufactured goods from abroad. Electronics firms Condor and IRIS have already established production units, and a number of other firms are currently building facilities of their own, including local company Bomare, which was set to begin production of LG-branded smartphones in November 2017.

**STEEL & STEEL PRODUCTS:** The steel, metal, mechanical and electrical industries accounted for 12.3% of industrial production in 2016. Steel output for the year stood at 2.5m tonnes and is forecast to reach 3.2m tonnes in 2017. There are currently two major steel producers active in the country. The longer-standing operator is the El Hadjar steel complex, which is currently undergoing a renovation programme launched in 2015 to bring production capacity back up to the nameplate figure of 1.2m tpa of liquid steel by 2018, after actual output had fallen to 300,000 tonnes prior to the project’s launch. The plant was previously a joint venture between state-owned firms and international steel major ArcelorMittal, but has been fully owned by the state-owned firm Imetal since 2016.

The other is the Turkish-owned company Tosyal in Algeria, which operates a plant in Oran. This facility was launched in 2013 and has a capacity of 2.9m tpa. According to reports in local press, the facility is currently producing below capacity due to difficulties obtaining inputs such as scrap iron. The firm is currently working to expand capacity to 5.6m tpa, due to be completed in 2018.

The country is expected to see a third major producer enter into operation, a steel complex under construction at Bellara in the province of Jijel. The $2bn complex – which will have an initial production capacity of 2m tpa and an expandable capacity of up to 4m tpa – is being developed by means of a joint venture between Imetal, with a 46% stake, the Algerian National Investment Fund with a 5% stake and Qatar Steel with 49%. After years of delays, construction on the project began in 2015, and in July 2017 the Ministry of Commerce announced production was set to begin in the near future.
Self-sufficiency in steel production is being targeted, with yearly output expected to hit 12m tonnes by 2020.

Other projects are also in the pipeline, including a 450,000-tpa steel products plant, set to begin production in 2018. There are also several projects that have been approved by the authorities but have not broken ground, including a joint venture project agreed upon in May 2016 between Algeria’s Bellazougu group and Emirati firm the Bidewi Group to build a 1.12m-tpa steel billets, profiles and reinforcing rods plant in Relizane, at a cost of $300m, as well as a plan by ETRHB Haddad to build a 2.1m-tpa plant for the production of various steel products. Tosyali also has plans for a further 2.1m-tpa expansion project to produce steel plates and other products, while fellow Turkish firm Karataş Inşaat intends to build a 150,000-tpa iron profiles plant.

As a result of such projects, in January 2017 Boucrouareb told local media that the country would soon be self-sufficient in steel. In October 2017 the Ministry of Industry and Mining forecast that steel production would rise to 12m tpa by 2020.

PHARMACEUTICALS: Another well-developed industrial segment is pharmaceuticals production. Following the 2009 imposition of restrictions on the import of goods that can be produced locally, national output has been growing rapidly, leading to rising levels of self-sufficiency. According to figures from the Ministry of Health, by value, 45% of pharmaceuticals consumed in the country were produced locally in 2015, up from around 23% in 2009; the government has announced it aims to raise this to 70%. In 2016 local media reported that the Ministry of Health believed this could be achieved within one to two years, thanks to a large number of new pharmaceutical manufacturing projects under way. However, some industry players believe that growth in local production and self-sufficiency is likely to level off in coming years. “Local production is dominated by classic pharmaceuticals and moves to increase production of these will reach market saturation at some point,” Boumediene Derkaoui, former CEO of state-owned pharmaceuticals manufacturer Saidal, told OBG. “Furthermore, some imports are reliant on new production technologies that Algeria has not yet mastered, in fields such as oncology, and these tend to be the most expensive drugs. Therefore, there are limits as to how much the import bill can be reduced.” He added that the country needed to prioritise the development of pharmaceutical technologies such as biosimilars.

The largest domestic pharmaceutical producer is Saidal, which had a turnover of AD10.2bn (€84.6m) in 2016, based on production of 119m units, up 9% from the previous year. The firm operates six production divisions and three distribution centres, as well as a research and development hub and a bioequivalence centre. It aims to raise production capacity to 300m units, generating annual turnover of AD30bn (€248.8m) by 2019.

NEW PRODUCTION: As part of such plans, the firm intended to launch three new generics production lines over the course of 2017. These would take the form of a 25m-unit facility for the production of dry-form medications in Cherchell, a 55m-unit line also for dry-form products in the Zemirli district of Algiers and a 28m-unit line to produce liquid products in Constantine. In July 2017 the firm’s management told local media that in the second half of the year it would also be working with its technical partner – Danish firm Novo Nordisk – to start producing insulin for the first time on a new production line at its Constantine factory.

Work on the line started in 2015, and the firm reportedly plans to start selling the drug in early 2018. The line will have a production capacity of 2.5m 10-millilitre units. The firm is also building an insulin pen factory in Blida, which is due to be finished by the end of 2018. Furthermore, Saidal is considering manufacturing oncological drugs...
together with a Kuwaiti partner, with a planned production capacity of 25m units per annum.

**DEVELOPING EXPORTS:** With total exports dominated by oil and gas – which accounted for 93.8% of the national total in 2016 – the value of industrial exports remains relatively small. Nevertheless, many sectors are developing sales abroad.

Regarding heavy industry, Fertial is one of the biggest exporters of ammonia fertiliser in the Mediterranean region, and nitrogen fertilisers and anhydrous ammonia together accounted for 43.3% of total non-hydrocarbons exports in 2016. The cement segment should also soon have substantial export capacity in the near future (see analysis).

In the electric goods field, Brandt exports around 90% of the output produced by its Sétif factory. Meanwhile, in 2016 Condor was targeting exports of around $300m and is continuing to develop markets in Africa, having recently opened showrooms in Mauritania and Senegal. However, some believe that exports could be challenging for electronics firms.

“We are prevented by law from sending free parts worth more than $1000 abroad, and have been unable to resolve the issue with the government, which is a hindrance to our after-sales service. We have also had trouble with plans to open a showroom in France, as transferring funds abroad to acquire foreign firms or pay staff is difficult under current laws,” Ali Boumediene, CEO of Bomare, told OBG.

Agri-business also has high levels of exports, dominated largely by cane and beet sugar, which accounted for 13% of non-hydrocarbons exports in 2016. According to APAB figures, the beverage industry exported $38m of goods in 2015, mainly to Middle Eastern and African markets.

Most pharmaceuticals export activity is undertaken by private sector firms selling basic products to African markets. In early 2017 Saidal told media that it had signed a contract with a distributor for the export of its products to 13 African countries. However, some believed that the outlook for further development of such exports was uncertain. “There is a need for Algerian banks to develop networks in main export markets to support exporters,” Derkaoui told OBG. “The outlook will also depend on factors such as operators’ ability to obtain certification that they meet European and US standards, as many producers increasingly realise that they need these to gain credibility abroad.”

While there is still progress to be made, other industry players believe the country’s industrial export potential is strong. “Algeria has a well-trained workforce, fairly low wages by regional and European standards, and low energy costs, so it can act as an export base for the region that could be attractive to European manufacturers,” Alexandre Kateb, founder of consultancy Competence Finance and a former member of an economic task force advising former Prime Minister Abdelmalek Sellal, told OBG. However, he added that logistics infrastructure needed to be improved. “The Trans-Saharan Highway is almost complete, but it needs to be upgraded into a proper motorway and supported by logistics bases, rest stops and so on along the way to support exports to Africa. There is a will to address such issues, and the launch of the new deep-water port in Cherchell will also facilitate maritime exports when it is completed in a few years.”

**OUTLOOK:** Heavy industrial activity is growing rapidly in Algeria, with plans for large-scale expansion in a number of segments, such as steel and construction materials. Manufacturing industries – including automotive and electronic goods assembly – also appear set for growth as foreign and domestic firms, spurred by import restrictions, build production units in the country. However, the success of these industries will depend on how quickly they can build effective and profitable local ecosystems, increase integration rates and generate economies of scale.

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**GDP by industrial segment, Q2 2017 (AD bn)**

- **Agro-industry:** 17.4
- **Water & energy:** 22.4
- **Steel, metal, mech. & electrical industries:** 28.1
- **Construction materials:** 73.2
- **Chemicals, plastics & rubber:** 101.3
- **Mines & quarries:** 120.2
- **Wood, paper & cork:** 180.2
- **Textiles:**
- **Leather & shoes:**
- **Misc.:** 2.8

Source: ONS
Great potential
Philippe Monestes, General Manager, Nestlé Algeria, on raising domestic production and export capacities in agri-business

How has the agri-business market developed, and what improvements still need to be made? 
MONESTES: Currently, the Algerian market is the most important in Maghreb and is experiencing the highest growth in the region. However, there is still potential to increase quality and develop more attractive offerings. Algeria still depends significantly on food imports and some key segments remain uncovered by local production. Quantity and quality capacities should expand in the next years, as well as distribution and operation processes.

The role of players in the agri-business sector is to invest locally to optimise integration rates every time it makes sense economically, ecologically and consumption-wise. Additionally, the medium- to long-term objective is to develop a network of domestic industrial subcontractors to provide the industry with the required services and goods. In the food processing segment there is already a noticeable increase in the number of subcontractors.

While large machinery is not yet made in Algeria, there are many high-quality accessories being produced and services being offered locally. To build upon this trend, we should look at strategies that have worked in the past, such as forming strong working relationships between private sector companies, universities and research centres.

The measures taken by the government to limit importation of agricultural products make sense in the long term, and they will establish local investment as an essential condition for foreign companies that are looking to carry out business in Algeria.

What kind of an impact have government policies had on the export potential of Algerian products? 
MONESTES: Despite the incentives that have been put in place by the government, exporting food products from Algeria remains very complex, due in part to high competition within the market, both in terms of pricing and quality. Opportunities for exports will increase when the markets surrounding Algeria are less restricted by policy. For example, the Green Corridor project, put in place by the Customs Agency, has had a positive impact on the ability of local agro-industrial businesses to obtain and export raw materials. Before the project, companies were waiting between 60 and 90 days at times to import raw materials, and exporting would sometimes take five to 10 days, making it very difficult for some firms to satisfy the needs of their foreign customers. Things have since changed marginally, and now it is possible to import or export goods within a few business days.

Improvements have also been made in the banking sector for local companies wishing to export. In the past, a firm undertaking exports had to repatriate payment for a transaction within 90 days. This has now been extended to 360 days, which makes exportation considerably more appealing to local producers.

Looking forward, on which areas should the agri-business market be setting its focus? 
MONESTES: With foreign companies increasing investment in local production units and national companies working on increasing both their capacity and brand image, the future looks promising for the Algerian agro-industrial sector. The focus should now be on increasing standards and adding value. Some methods and processes could be greatly improved through better synergy between market players and from the expertise of international firms.

As the local market is starting to upsize, there will be an increased need for human resources. Most foreign firms develop ambitious recruiting programmes in order to meet their needs on a short-term basis, but better communication between training centres, specialised schools, universities and the business community would greatly benefit the sector in the long run. Quality people is what makes the best companies.
Concrete assets

Construction materials to become a primary non-oil export

One of the largest manufacturing segments in Algeria is construction materials, which accounted for 2.2% of total country GDP and 10.4% of industrial GDP in 2016, with value added of AD101.3bn (€840.2m), according to the National Statistics Office. In 2016 segment GDP grew by 6.2% in real terms – up from 5.1% the previous year – making it the second-fastest-growing industrial segment, behind only wood, paper and cork. Growth slowed in 2017, to 3.7% in the first quarter and 2.8% in the second. Activity is roughly equally split between public and private sector actors: AD46.8bn (€388.2m) of sector value added originated with private companies in 2016, versus AD54.3bn (€452.1m) for state firms.

CEMENT PRODUCTION: The largest cement producer is the state-owned Groupe Industriel des Ciments d’Algérie (GICA), which operates 12 of the 17 cement plants in the country and has a production capacity of around 11.5m tonnes per annum (tpa). The second-largest player is LafargeHolcim Algerie, a unit of French construction materials firm LafargeHolcim, which operates three plants, one in M’Sila with a 5.2m-tpa capacity, one in Mascara with 3m tpa and one in Meftah with 1.5m tpa, as well as a recently inaugurated 2.7m-tpa joint venture.

National cement production was 21m tonnes in 2014, according to the most recent available data from the US Geological Survey. After hovering around 19m tonnes in previous years, factory construction and expansion projects are ramping up production. October 2017 was due to see the official inauguration of the Ciment Lafarge Souakri (Cilas) cement plant in Biskra, with a production capacity of 2.7m tpa. However, by late 2017 there were no further updates on this.

The facility, which was built at a cost of more than €200m and began operations in August 2016, is a joint venture between LafargeHolcim and local company Souakri Brothers. Further projects are in the pipeline, and in a 2017 report the Ministry of Industry and Mining forecast that national cement production capacity would roughly double to reach 40.6m tpa by 2020. GICA’s capacity alone is expected to rise to 20m tpa over the period, while Lafarge Holcim’s should hit 11.1m tpa.

CUTTING IMPORTS & GROWING EXPORTS: Having grown strongly in previous years, imports stood at 6m tonnes in 2015. However, cement was among the products covered by the first round of import restrictions introduced in 2016 (see overview). This, in conjunction with the rising availability of locally produced cement, saw imports fall to around 3.5m tonnes in 2016. This brought down the cement import bill by 42% to $260m. Authorities are further limiting the availability of imports by not issuing any licences for grey cement in 2017.

In early 2017 LafargeHolcim Algeria predicted the country would have excess cement capacity of around 10m tpa by 2019. The ministry report forecast that rising production would give rise to even greater excess capacity of between 12.5m and 13.5m tpa. Much of this will be sold abroad, though the report warned there are limits to how much the country can expect to export in coming years, given finite regional needs and the quality and competitiveness of Algerian cement. In October 2017 Youcef Yousfi, the minister of industry and mining, said cement would become one of Algeria’s most important non-hydrocarbons exports, forecasting foreign sales to eventually reach around 15m tpa.

In February 2017 LafargeHolcim announced it would start exporting clinker and grey cement to West Africa in 2018, while the Cilas plant also reportedly intends to launch exports soon. According to the report, the most promising export markets are neighbouring Mali, Libya, Niger and Mauritania. These nations are set to have high demand for construction materials due to urbanisation, development projects and – in Libya’s case – post-conflict reconstruction.
Automotive to grow

Domestic carmaking is continuing on a promising path

Before 2014 the only domestic vehicle manufacturer was the state-owned Entreprise Nationale des Vehicules Industriels (SNVI), which was established during colonial times and produces commercial and heavy vehicles. However, in 2014 Renault Algérie Production, a joint venture between SNVI, Fond National d’Investissement and French carmaker Renault, launched an assembly plant near Oran. Initial production capacity was 25,000 vehicles per year, with a capacity to expand production to 75,000. In October 2017 it assembled its 100,000th vehicle. Another assembly line has been completed, with sales due to start in early 2018.

**FOREIGN INVESTMENT:** German manufacturer Volkswagen followed in July 2017, inaugurating an assembly plant in Relizane in a joint venture with its Algerian distributor SOVAC. The capacity is 200 vehicles per day, to be increased to 550 in 2018. This launch is reportedly intended to increase Volkswagen’s presence not only in Algeria, but also in Africa generally, by 2025.

Furthermore, the domestic Tahkout Group launched an assembly plant to produce Hyundai vehicles in Tiaret, with a planned capacity of 100,000 vehicles per year by 2020. South Korean carmaker Kia, together with the Global Group, its distributor, also reportedly began building a AD14bn (€116.1m) factory in Djemma in Batna province in April 2017, which will have a 100,000-vehicle-per-year capacity and should be complete in 2021. In April 2017 Abdelmalek Sellal, then-prime minister, also said plans for a Peugeot factory would be finalised by end-2017, and in October 2017 the French carmaker was reportedly confident this would be resolved soon.

The government has also been reviewing applications by Nissan, Saipat and Suzuki, with some delays. In October 2017 the Japanese ambassador to Algeria told media that plans to establish Nissan and Toyota factories could be finalised in 2018. Indeed, such an ecosystem is already developing. In October 2017 the Tahkout Group announced plans to build a motors and spare parts factory in El Bayedh in a joint venture with Tunisia’s Plastic Electromechanic Company. Local firm Saterex is also building a tyre factory in Sétif. Due to open in 2018, this will be the largest facility in Africa, producing 1m car tyres in its first year and expanding to 2m car and truck tyres. In October 2017 Youcef Yousfi, the minister of industry and mining, said the planned re-opening of a petrochemicals and plastics plant in Skikda should facilitate integration by increasing availability of locally produced plastics.
Globally driven

Amine Melouk, General Manager, SAREL, on investing in human capital and reforming Customs to support the automotive industry

How can local companies participate in the emerging Algerian automotive industry?

MELOUK: Our case was made possible thanks to a market surveying mission led by Renault, whose aim was to develop a local subcontracting factory to substitute the importation of spare parts. SAREL used to be a producer of telecommunications devices, so it required significant upgrades from our side to meet industry standards. We had to go through several international certification processes and every part that was produced in Algeria needed to go through a validation process in the Renault Technocentre in Paris. Since 2016 boosting the local subcontractor ecosystem seems to be at the top of the government’s agenda. This trend could continue over the medium term as many foreign actors are either in the process of setting up a production unit in the country or are thinking of doing so, including Hyundai, Peugeot Citroën, Kia and Ford.

What else can be done to strengthen the sector?

MELOUK: In order for small and medium-sized enterprises to benefit from the arrival of big international car manufacturers, we first need to enhance our human resources. For example, the segment of quality management is key to the automotive sector, but it is almost impossible to find workers with these skills domestically and we recently had to hire someone from Tunisia for this role. Therefore, investments should be channelled into the development of training centres and specialised schools. Furthermore, employees’ must learn to make better use of computing systems as part of the manufacturing process.

The financial sector should also play its part by easing access to credit; most raw material suppliers request letters of credit that simply do not exist in Algeria, because the majority of small industry owners finance their acquisition of new machinery with their own funds. Significant efforts need to be made as well by the Customs authorities. According to the law, imported automotive accessories such as clamps, felt or foam pieces are supposed to be exempt from Customs duties and tariffs. Nevertheless, these instructions have not been sent to administrators, so importers keep paying certain fees. Overall, these processes need to be modernised. For instance, if a manufacturer needs to fix one of its moulds outside the country, this can take up to 12 months because of excessive red tape, whereas it takes only four or five days in Europe. Nobody in the sector can afford these kinds of waiting periods. The automotive world will not adapt to Algeria, so Algeria must adapt to the automotive world.

How do you foresee the future of the industry?

MELOUK: We are positive about the evolution of the sector, and we are witnessing a growing interest from local industrial actors that want to take part in it. Overall, automotive rolling stock is ageing in Algeria, and the recent import quotas imposed by the government are preventing market demand from being fulfilled, which greatly benefits car manufacturers that produce domestically.

Nevertheless, Algeria is at a disadvantage when compared with other countries in the region. Currently, being a subcontractor for the automotive industry is not profitable because the profit margins are extremely tight, but this can be expected to change following an upcoming increase in volume due to the multiplication of producers situated in the country. Hyundai, PSA and Volkswagen are all expected to start production in 2018, and with this economies of scale should appear – driving up profits. In the long term, the opportunity to export spare parts remains extremely interesting, as Algeria is ideally located to supply both Africa and the Mediterranean basin. In short, the sector has now taken root and possesses great potential for expansion.
Turn of phosphate

Plans put forward to increase mineral and metal production through changes in policies and joint-venture agreements

As the largest country in Africa, and home to a variety of topographies and geologies, Algeria is rich in substantial mineral reserves. These are currently underutilised, as the sector has attracted little investment in recent decades. According to figures cited in local press, around 60% of the country has not been properly explored. Algeria’s size and the need for infrastructure development to exploit large mineral reserves in remote areas represent another challenge for the sector. However, the government is keen to develop mining as part of wider diversification efforts to counter the lower oil price environment that emerged after mid-2014. Several agreements for large-scale mining and processing operations for minerals, such as phosphate and iron ore, have been signed in recent years, though it remains to be seen if these will go ahead.

ECONOMIC CONTRIBUTION: Algeria is home to 1370 active mines, according to 2015 data from the Ministry of Industry and Mining (MIM), and there are around 700 quarries in the country, of which around 50% are actively mined. In terms of output, the sector remains small: according to figures from the National Statistics Office (Office Nationale des Statistiques, ONS), sector value added stood at AD28.1bn (€233.1m) in 2016, equivalent to 0.6% of total GDP. Growth levels are also currently low: sector GDP expanded by 0.5% in real terms in 2016, up from a contraction of 1.7% the previous year. In 2017 growth of 0.5% was recorded in the first quarter, though this was followed by a contraction of 1.7% in the second. Mining exports were valued at $103m in 2015, according to figures from the MIM. Due to revitalisation efforts, the government believes that mining output can reach $8bn by 2021.

PUBLIC SECTOR DEVELOPMENT: The mining industry has historically been dominated by the public sector. In 1966, four years after independence, the government nationalised the country’s mineral resources, took over the operations of French mining companies, and established a state-owned firm, the National Company for Mineral Exploration and Production (Société Nationale de Recherches et d’Exploitations Minières, Sonarem) to carry out mining activities. Sonarem was later disbanded and replaced by a range of specialised public companies operating in different segments within the sector. A new mining law issued in 1984 more or less maintained the state’s monopoly over the sector. However, in 2001 the government revised the law to allow private sector participation in the industry. A 2014 law sought to further increase private mining activity.

In 2011 the authorities also handed oversight over the main five public mining firms to the newly created Algerian Mines Company (Manadjim Al Djazaïr, Manal). The companies continue to operate as subsidiaries of Manal. Entreprise d’Exploitation des Mines d’Or (Enor) is responsible for gold mining; Entreprise Nationale des Produits Miniers Non Ferreux for other non-ferrous metals; Ferphos for iron ore and phosphate; Enamarbre for marble; and Enasel for salt. Two other companies providing support services to the sector – the National Agency for the Transformation and Distribution of Gold and Other Precious Metals and the National Bureau for Geological and Mining Research – were also subsequently integrated into the Manal group.

While authorities are seeking more private sector investment in mining and private firms are now active in a number of segments, the industry currently remains largely dominated by the public sector: AD25.8bn (€214m), or 91.8% of total sector value added in 2016.
problems with importing such spare parts. However, state mining operations are increasingly replacing their equipment with newer material, which should boost production and efficiency over time. Some mines also closed due to various factors such as underinvestment, but the government plans for all of these to have reopened by 2018.

NEW LAW: In 2014 as part of wider moves to diversify the economy through the development of non-hydrocarbons sectors, the government replaced the country’s 2001 mining law with new legislation aiming to boost private investment through an updated royalty and fee regime and various incentives. However, the law also creates a category of strategic minerals that only government-related enterprises can mine. Incentives for investment in the sector under the legislation include exempting mining firms from value-added tax and import duties on the equipment and services they use in mining activities, as well as from the country’s tax on professional activities (taxe sur l’activité professionnelle).

The new framework sets royalties on mineral products at between 1.5% and 6%, with the maximum amount being applied to semi-precious and precious metals and gemstones. Under the law, miners also pay tax based on the surface area of their concession, and they must retain up to 2% of profits for the rehabilitation of project sites after mining activity comes to an end. In addition, the law saw the establishment of the National Agency for Mining (Agence Nationale des Activités Minières, ANAM), which replaces the previous industry regulator, the National Mineral Resources Agency, and has greater regulatory oversight than the former body.

The new agency includes a mining police force, which supervises administrative and technical aspects of production, and seeks to ensure that mining operations do not cause excessive environmental damage and that former mining sites are properly rehabilitated. The law also introduces increased flexibility to the regulatory framework through measures including permission for companies from any sector to engage in mining activities, the ability of operators to cede or transfer their licences to other companies, and free access to the government’s geological database for the country. As of late 2017 some of the regulations for the law had not been approved, meaning that it is not yet in full effect at the time of publishing.

CONCESSIONS: ANAM holds regular bid rounds for site concessions. In 2016 it issued licences for 58 mining sites, for which companies paid a total of just over €16.6m, across four rounds. In May 2017 the agency issued licences for a further 18 new mining sites under the country’s 46th medium and small mining licensing round out of 22 that were under consideration. The licences – which were worth a combined AD263.4m (€2.2m) – were for seven limestone projects: four in Illizi province, two in Tamanrasset, and one in M’Sila. Furthermore, there were licences for seven construction sand sites: two each in Chlef and Mostaganem provinces, and one each in Tébessa, Tiaret and Mascara; two tuff sites, one each in Ouargla and El Oued; and another two granite projects, in Tamanrasset and Illizi.

According to local media reports in May 2017, the agency plans to hold two more such rounds before the end of the year, one covering large projects in gold and other precious metals, and the other for a range of minerals including marble and bauxite.

Local companies investing in new minerals production include agricultural and construction conglomerate the Hasnaoui group, which plans to open a new marble and granite mining and processing operation in the southern province of Tamanrasset in November 2017. The site will have a granite tile production capacity of around 2000 sq metres per day. The firm is also planning to expand an existing marble site in the north-western province of Sidi Bel Abbès, with the aim of reaching output of 10,000 sq metres in 2018, some of which will be exported.

PHOSPHATE PRODUCTION & PROCESSING: Algeria has large reserves of phosphate rock, and this is one of the few mineral commodities that the country currently produces on a large scale. It ranked as the 18th-largest global producer of phosphate in 2016, according to data from the US Geological Service (USGS), with production of 1.5m tpa, up from 1.4m tpa the previous year. However, with 2.2bn tonnes of reserves, its potential output is much greater. This makes Algeria home to the world’s third-largest reserves, after only Morocco and China. Authorities have stated that national production of the commodity could easily be increased to 10m tpa. Based on USGS figures, this would make the country the fifth-largest producer in the world, ahead of Jordan, the current fifth-place holder, which had 8.3m tonnes of phosphate output in 2016.

Most production currently takes place at the Djebel Onk phosphate mine in Tébessa province, which

In 2016 licences for 58 mining sites were issued, for which companies paid a total of just over €16.6m

Algeria has a reported 2.2bn tonnes of phosphate reserves, the third-largest in the world
The country exports phosphate rock for $80 per tonne and imports processed phosphate for 10 times that amount.

has a production capacity of around 1.6m tpa and is operated by Somiphos, a unit of Ferphos. The government has long-standing plans for major development of the sector, including expansion of Djebel Onk, the launch of a major new phosphate mine at Bled El Hedba, and the construction of large-scale phosphate processing facilities at Oued Keberit in neighbouring Soukh Akhras province. The processing sector is ripe for growth, even without expansion of mining activity: currently most phosphate in the country is exported in its raw form, with little processing taking place. Ali Bey Nasri, president of the National Association of Algerian Exporters told media that phosphate imports were costing the country $600m a year, with Algeria exporting phosphate rock for $80 per tonne and importing processed phosphate products for 10 times that amount.

Such projects would require large-scale investment and technological know-how, much of which would likely need to come from abroad. Several provisional major joint venture agreements with international phosphate and fertiliser firms have been announced in recent years. However, it remains to be seen if any of these will pan out.

PRODUCTION AGREEMENTS: In mid-2016 Manal and state-owned fertiliser firm Asmidal – a unit of national energy firm Sonatrach until 2015, at which point it was placed under the oversight of the MIM – signed agreements worth around $4.5bn with Indonesian firm Indorama for the establishment of three phosphate and fertiliser joint ventures in Algeria. The agreement would see Manal and Indorama jointly develop a 6m-tpa phosphate mine at Bled el Hedba in Tébessa province near the border with Tunisia, bringing it on-line in 2019. The deals also include the construction of a fertiliser plant in Oued El Keberit, with 3m tpa of diammonium phosphate fertiliser production capacity and 1.45m tpa of phosphoric acid capacity, as well as a calcium ammonium nitrate and technical ammonium nitrate (TAN) plant in Hadjar Soud in Skikda province, with production capacities of 800,000 tpa and 200,000 tpa for the respective commodities. Both plants are forecast to begin production in 2019.

However, as of late 2017 there seemed to be little progress towards finalisation of the plans. In February 2017 Manal and Asmidal signed three agreements with Saudi Arabian Radyolla Group for a $15bn phosphate fertiliser project, using phosphate rock from the Djebel Onk mine and natural gas. Due to conflicting reports, it remains unclear whether this agreement supersedes the deal with Indorama.

In May 2017 local media reported that the Saudi firm appeared to be little more than a shell company and that the project was therefore unlikely to go ahead. Radyolla subsequently published a letter in the Algerian press denying the report, stating that financing for the project was in place and asserting that it was awaiting finalisation of negotiations with its Algerian partners ahead of beginning work on technical studies for the projects. In March 2017 press also reported that the National State Holdings Council (Conseil des Participations de l’Etat) would approve an agreement for the creation of a 6m-tpa Chinese-Algerian phosphate processing plant.

The plans mooted recently follow on the heels of several previous phosphate projects that did not ultimately come to fruition. These include a 2007 agreement for Sonatrach and Ferphos to partner with Pakistani firm Engro for a $1bn phosphate-based fertiliser complex, with total fertiliser production capacity of approximately 2m tpa.

In 2013 Qatar and Algeria signed memoranda of understanding for the creation of two phosphate and fertiliser joint ventures in the country involving either Qatar Petroleum International or Qatari fertiliser firm Qatar Fertiliser Company (QAFCO). These were a 5m-tpa phosphate processing project at Oued el Keberit with Manal and Asmidal, and a fertiliser plant in Hadjar Soud with the National Office of Explosive

In mid-2016 a combined $4.5bn worth of agreements were signed with an Indonesian firm to establish three phosphate and fertiliser joint ventures.
Substances and Asmidal. Norwegian firm Yara International, which owns a 25% stake in QAFCO, had also reportedly been involved in the plans, though it did not confirm this at the time.

In 2015 the MIM announced that the projects remained under consideration, but QPI withdrew from the plans later the same year, citing internal restructuring and a change in strategy.

While the outlook for these international joint venture projects remains unclear, the country has other projects in the pipeline that are not directly dependent on international investors. Asmidal, for instance, has plans for two wholly-owned fertiliser plants: a TAN plant in Bouïra and a solid fertiliser bulk blending plant in Oran province, both of which will have production capacities of 240,000 tpa.

**IRON:** Iron ore is also currently produced in large volumes. The main known deposits are located in north-eastern Algeria, near the border with Tunisia – which is also the location of most phosphate production – and the south-west, near the borders with Mauritania and Morocco. There are currently six active iron ore mines, which, according to MIM data, had combined production of 900,000 tonnes in 2014, down from 1.07m tonnes the year before. The main active mines in the country are the Ouenza and Bou Khadra sites in Tébessa province in the north-east, which have combined deposits for around 60m tonnes and annual production capacity of 1.2m tpa and 525,000 tpa, respectively. Both are operated by ArcelorMittal Tébessa, a subsidiary of Imetal.

The government is also moving to develop a major iron ore deposit in the south-west of the country known as Ghar Djebelit, which has estimated reserves in excess of 1.5bn tonnes. Following a number of previous initiatives to begin exploiting the deposit since its discovery in the 1950s – none of which came to fruition – in 2014 the government established a new state-owned joint-venture firm to oversee the iron mining project, known as Feraal.

In February 2016 the MIM announced that it was in negotiations with Chinese companies to establish a joint venture to operate a mine at the site, as well as for the construction of a new railway line to ship its output north. In May 2016 ANAM agreed to provide Feraal with AD3bn (€24.9m) to fund pre-feasibility studies for the project, and in March 2017 Feraal signed an agreement with Chinese firm Sinosteel to conduct studies for the exploitation of both Gara Djebelit and the nearby Mecheri deposit, which is believed to hold reserves of around 700m tonnes. Authorities hope to begin production at the site between 2020 and 2022, and that it could produce up to 12m tpa of iron ore by 2025.

**PRECIOUS METALS:** The MIM believes that Algeria holds recoverable reserves of around 121 tonnes of gold. Enor is currently the only producer of the precious metal, at its Amesmessa mine in the southern province of Tamanrasset. The company previously also operated a gold mine at Tirek, also in Tamanrasset Province, but this facility has since closed. Output at Amesmessa has been falling rapidly in recent years as the grade of gold falls: total production was 85 kg in 2014 according to data from the MIM, down from 140 kg the previous year and 1000 kg in 2009. Silver production, which also occurs at just one mine, has also been decreasing in recent years as well, with 16 kg mined in 2014, down from 21 kg in 2013.

While Enor is the only firm currently producing gold, Canadian firm Cancor Mines – a wholly owned subsidiary of Yorbeau Resources – has four prospecting permits for the metal in the country: in Tirek North, in Ouazzal North, Tan Chaffao West and Tan Chaffao East, all of which are located in Tamanrasset province in the south. The firm identified polymetallic mineralisation at Tan Chaffao East, and says there is excellent potential to discover similar mineralisation at Tan Chaffao West, and to find vein-type gold mineralisation similar to deposits at Amesmessa and Tirek at In Ouazzal North and Tirek North.

Southern regions have seen an uptick in informal gold prospecting, with 774 people arrested for illegal prospecting in 2015. Many of those involved come from neighbouring countries such as Mali. In January 2017 media, citing sources in the MIM, reported that the government had called on Enor to identify gold veins in the Bordj Badji Mokhtar and In Guzzam areas of Tamanrasset, in order to be better able to pre-empt such prospecting activity. According to media reports in August 2017, Tamanrasset and Ilizi saw another surge in prospecting activity after locals found small pieces of gold around the border between the two provinces.

**OUTLOOK:** The new mining law should attract investment in the sector, especially after all its regulations are in place. However, it remains to be seen if recently announced large joint-venture projects in the phosphate mining, phosphate-based fertilisers and iron ore segments will continue and, if not, how the country can attract investment to boost output.
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Value added posted strong expansion in 2009-15
Sector strategies aim to enhance domestic output
Introducing incentives and streamlining procedures
Large-scale projects with foreign investors take shape
A new approach

Adopting measures to boost sector investment, and increase production and self-sufficiency

As Algeria looks to curb its imports in the face of declining state revenues, speeding up development of the agriculture sector has become a pressing goal. As the country seeks to diversify away from hydrocarbons, the sector is well placed to contribute.

Agriculture accounts for around 13% of GDP and employs some 11% of the country’s active population. Output improved between 2007 and 2017 thanks to efforts to clear some of the bottlenecks that have traditionally held back the sector’s development, such as legislation, land ownership and financing. Moreover, the economic pressure resulting from the fall in hydrocarbons revenues is leading authorities to reconsider the importance and structure of the sector, and gradually adopt new approaches such as intensive and large-scale farming. The government is targeting enhanced private investment to achieve these goals.

**DEVELOPMENT PLAN:** The Agricultural and Rural Renewal Policy (Politique de Renouveau Agricole et Rural, PRAR) is the main scheme overseeing the development of the sector. Launched in 2008, the strategy aims to boost the level of foreign direct investment, increase output and improve market structure. As a result, the sector’s total value added – fisheries and forestry output included – increased by 116% between 2009 and 2015 to reach AD2.01trn (€16.7bn), or 12% of GDP, according to the National Statistics Office (Office Nationale des Statistiques, ONS). In June 2016 a fresh impetus to the policy was brought about by the launch of the Felaha 2019 initiative by the Ministry of Agriculture, Rural Development and Fisheries. The strategy has a particular focus on private investment, consolidation and innovation, and it targets average annual growth of 5%, AD4.3trn (€35.7bn) in output value and 1.5m new jobs by 2019. It also aims to cut food imports from $9.3bn in 2015 to $2bn and double the value of exports to $1.1bn by 2019.

**PERFORMANCE:** While agricultural output has made headway since the introduction of PRAR, the sector’s performance since 2016 has been hindered by restrictions on imports – on which the country remains dependent – and a decrease in public expenditures. In 2016 the sector’s value added grew by 1.8%, down from 6% in 2015, according to the ONS.

Indeed, as hydrocarbons revenues have almost halved since 2014, and foreign currency reserves have shrunk as a result, Algeria has had to tighten its import allowance. In early 2017, for instance, in a bid to slow down food imports, the government increased the value-added tax (VAT) applied to some cereals and animal feed products from 7% to 9%. These included grains such as corn and barley, goods that have traditionally weighed heavily on the food import bill. Cereals in general make up an important share of this bill. In 2016 the country imported $2.7bn worth of cereals (wheat, durum, corn and barley), down 21% compared to 2015 on the back of lower global grain prices. In terms of volume, the decrease was less significant, falling by 3.3% to 13.2m tonnes.

Cereal imports maintained this trend in 2017, decreasing by 0.72% to $2.1bn in the end of September 2017 from $2.13bn in the same period in 2016. Still, the overall food import bill increased during the same period by 6.4% to $6.5bn, up from $6.11bn, according to the Centre for Customs Data and Statistics. The rise was mainly driven by a 58.2% increase in the import value of dairy products, vegetables (27.8%), sugar and confectionary (22.1%), and tea and coffee (8.9%).

In October 2017 the government announced that it planned to cut the total import bill from $41bn at the end of 2017 to $30bn in 2018. However, details as to whether and to what extent such adjustments would apply to food imports had yet to be unveiled at the time of publication. This move, compounded by the fluctuations in supply witnessed in some segments since 2015 on the back of government efforts to curb imports, could help direct focus towards the need to stimulate local upstream and downstream activities.
DOMESTIC OUTPUT: Thanks to PRAR, Algeria now produces a wider range of produce for domestic consumption, with a good level of output achieved particularly in maraîchage, or market gardening. Vegetable output increased by 13.4% between 2009 and 2014. Potato production, in particular, has been significant, reaching 5m tonnes in the 2016/17 harvest. The potato harvest is expected to total 6.7m tonnes in 2019, and the country is targeting exports of approximately 70,000 tonnes.

Such ambitions are likely to be supported by a shift observed in recent years to adopt more intensive farming methods (see analysis). This move is essential in a sector that has traditionally been dominated by smallholder farmers operating on areas of less than 10 ha, and in a country that is striving to achieve food self-sufficiency in the face of a growing population and volatile commodity prices.

Evolving Legislation: As part of efforts to diversify the economy, incentives to boost private investment in the non-hydrocarbons sector have gradually been introduced. A new Customs Code approved by the parliament in early 2017 bodes well in that regard. With bureaucracy and administration long deemed an impediment to investment in Algeria, the new code aims to modernise and streamline procedures, in line with international Customs conventions.

Such changes should come to support the New Growth Model strategic vision launched by the government in July 2016, which targets a 6.5% annual growth rate in non-hydrocarbons GDP over the 2020-30 period (see Economy chapter).

According to Ismail Chikhoune, president and CEO of the US-Algeria Business Council, the 2018 Finance Law is also expected to bring about further incentives to encourage foreign investment, though the 49:51 foreign investment cap is likely to remain untouched. “The 49:51 foreign investment cap does not constitute a major obstacle to investment. It helps generate value addition, and outside of key strategic sectors there is room to relax the policy somewhat,” he told OBG.

PRIVATE INVESTMENT: One of the major trends witnessed in the sector since 2015 is the gradual emergence of large-scale farming. Though still in its infancy, several deals with local and foreign investors have been struck, such as the joint venture between the American International Agriculture Group (AIAG) and Algeria’s Lacheb Group, established in 2015, as well as the more recent accord from early 2017 involving AIAG and Algerian Tifra Lait (see analysis). Both projects are particularly attractive in that they target development at different levels of the value chain, therefore fostering better integration between upstream and downstream activities. “Following a number of adjustments and initiatives, and with financial support from the government, private investors are settling into the sector at a reasonable pace,” Amine Bensemmane, president of GRFI Filaha Innove, told OBG.

The private sector is also being called upon to develop pilot farms, mostly located to the north of

Although incentives to boost private investment in the non-hydrocarbons sector have been introduced over the past few years, the 49:51 foreign investment cap is likely to remain untouched.

The sector has traditionally been dominated by smallholder farmers
The cereals yield in 2016/17 was

3.5m tonnes

One of the main goals of the Agricultural and Rural Renewal Policy consists of streamlining activities across the value chain through better organisation and restructuring of the sector.

Potato production reached 5m tonnes in 2016/17, with the harvest expected to hit 6.7m tonnes in 2019.

The country, with the view of boosting domestic output in segments ranging from fruit and vegetables, to livestock and animal feed. Totalling 178 farms spread over 200,000 ha, a number of them have been under development in the form of public-private partnerships since 2013. Further farms are currently in the planning stages, according to local media reports.

**CONSOLIDATING ACTIVITIES**: One of the main goals outlined in the PRAR consists of streamlining activities across the entire value chain through better organisation and a restructuring of the sector. To some degree, the country has seen progress on that front, with a number of crop-specific trade committees emerging in key segments, such as cereals and dairy, to facilitate collaboration between the state and sector operators.

The development of such platforms is also intended to enhance integration of upstream and downstream activities, and modernise agriculture through the uptake of modern equipment and technology.

However, according to Bensemmane, while much has been achieved in this regard, especially in terms of output targets, the country still has some headway to make. Farmland development is one of the most pressing issues to be addressed. The requirement to develop cooperatives to accompany the expansion of large-scale and intensive farming projects is another example suggested by Bensemmane.

**ACCESS TO LAND**: Since 2008 Algeria has allowed state-owned land to be leased to private developers for agricultural purposes. However, the authorities have had to intervene and crack down on illicit usage. Local media reported in October 2017 that up to 853,000 ha of land had been allocated since 2008, and yet only 31% of the total land area had been developed into viable farming projects.

To that end, the government is looking at expropriating misused land and diverting it to more serious investors. As Africa’s largest country, and with an estimated 42m ha of agricultural land, there is certainly room to expand production, which currently occupies around 8.5m ha of land. While the country has sought to ease access over the years, land ownership issues, particularly to the north of the country, continue to impede development, limiting the potential for a long-term vision and investments.

**IRRIGATION**: Algeria is looking to increase the coverage of its modern irrigation networks by up to 2m ha in the coming years, in line with its goal to boost sector output. The country is also looking to promote efficiency and limit the quantity of water going to waste through modern irrigation techniques, such as drip irrigation, as well as water recycling. While investments have been made to that end, particularly since 2008, the sector continues to rely heavily on rainfall for its water needs, estimated at 6.7bn cu metres a year. Climate change and unpredictable weather conditions make it all the more challenging for policymakers and investors alike; however, the planned expansion of the network should help improve future visibility.

Irrigation to the south of the country is being expanded to accompany recent developments, with more than 2m sq km currently under irrigation and another 1m sq km being equipped. In a bid to supply both cities and agriculture with water, Algeria has also invested in dam construction, bringing their total number from 30 in 2000 to around 100 today.

**CEREALS**: A larger irrigation network is most likely to benefit the cereals industry, which has been impeded by sporadic access to irrigation water. The cereals yield totalled 3.5m tonnes in 2016/17, a slight increase from the 3.4m tonnes produced in the previous growing season on the back of unfavourable weather conditions experienced in multiple producing wilayas (provinces). Under the Felaha 2019 strategy, the goal is to reach 6.98m tonnes in cereal output by 2019, with the aim of eliminating all durum imports, and bringing cropped areas under irrigation from its current 250,000 ha to 600,000 ha. Large-scale projects established in the south of the country should come to support the industry’s ambitions (see analysis).

In line with its objectives to expand production, storage capacity is also being reinforced, with 10 metal silos acquired in 2017 and an additional two concrete silos due for delivery in 2018.

**ANIMAL FEED**: On the back of insufficient domestic output, Algeria continues to satisfy a significant share of its needs for animal feed through imports, notably, of corn and barley. In 2016 corn imports stood at some 4.11m tonnes while those of barley reached 879,214 tonnes, costing the country more than $922m. As with other cereals, efforts are under way to boost local output through large-scale integrated projects, particularly in the south of the country, allocating a share of their investment for the development of the segment (see analysis). One of the expected outcomes from such developments is a noteworthy decline in the cost of animal feed. “Some 80-90% of the cost of production in poultry farming, for instance, is swallowed up by purchases of animal feed,” Salah-Eddine Abdessemed, CEO of Ceva Santé Animale, told OBG.
Nonetheless, the issue is likely to persist for some time as the government seeks to protect finances in the face of declining hydrocarbons revenues, limiting imports on animal feed and various other grains since the start of 2017 through VAT hikes and various import restrictions. Delays in granting licences for the import of corn, for instance, caused supply disruptions on the local market at the beginning of the summer of 2017 and caused prices for the good to soar.

However, according to local media reports, plans to phase out the VAT applied to animal feed in 2018, including on corn, should help alleviate the burden and support local production.

DAIRY: Algeria consumes around 5bn litres of milk a year, but local output stands at some 1bn litres. Consequently, the country has to import milk to meet local demand. In 2016 the milk import bill amounted to $849.2m. Though down 18.6% compared to a year earlier, milk – particularly powdered milk – continues to make up a notable share of the broader food import bill. To that end, Algeria is striving to develop its local fresh milk industry, which has so far been hampered by factors including nutrition and farming conditions. “Output is poorer than in other countries,” Chikhoune told OBG. “For instance, a dairy cow in Algeria returns between 11 and 15 litres per day, against 22.5 litres in Europe and 32 litres in the US.”

To encourage investment in the segment and reduce dependence on imported powdered milk, the government reviewed its subsidies for milk production in 2016. Under the Felaha 2016 plan, the authorities are looking to both increase the share of fresh milk that is produced locally as well as end imports of powdered milk that are destined for dairy-derived products by 2019, saving up to $750m per year. Plans to increase the production of animal feed bode well in that regard, combined with the ambition to foster enhanced integration in the segment.

AGRI-BUSINESS & TECHNOLOGY: Agri-business is an important industrial contributor to GDP, accounting for 8.6% in 2016. While the PRAR helped stimulate investments in the segment, it remains heavily dependent on imported raw materials due to inadequate local supply, and a lack of integration between upstream and downstream activities.

However, with the government looking to slash its import bill, efforts will need to be deployed to enhance local agricultural output, and foster collaboration between farmers and the processing industry. Integrated projects such as the US-Algerian joint venture under way in the south provide a good example, with plans to raise dairy cattle and produce animal feed part of the same development.

Other market players such as Cevital and Benamor have also sought to invest in the upstream sector over the years in order to meet their own needs and expand their activities along the value chain. In this regard, farmland consolidation is a pressing matter to be addressed in order to help improve productivity and develop the economies of scale required to meet the industry’s needs. While the sector still has some way to go before it can start sourcing raw materials locally, the industry has nonetheless seen some progress, with certain subsectors substituting imported inputs with locally produced goods, such as in the yoghurt industry, where demand for candied fruit is for the most part now met domestically.

OUTLOOK: While the Algerian economy has been shaken in recent years by the repercussions of the fall in oil prices and their subsequent impact on government revenues, the agriculture sector has registered steady growth. This expansion has continued steadily, despite the adjustments made to limit imports and the review of some of the subsidies applied to foodstuffs. With a population of over 40m, there is certainly room for expansion from an investor’s perspective at a time when domestic production and value added are key to strengthening the economy and achieving food self-sufficiency. The move towards large-scale farming in partnership with foreign investors should help bolster these ambitions, and potentially drive up the quality and exports of locally produced goods.

**Agriculture value added, 2006-16 (% of GDP)**

<table>
<thead>
<tr>
<th>Year</th>
<th>Value Added</th>
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</thead>
<tbody>
<tr>
<td>2006</td>
<td>8.0%</td>
</tr>
<tr>
<td>2007</td>
<td>7.8%</td>
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<td>2014</td>
<td>6.2%</td>
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<tr>
<td>2015</td>
<td>6.0%</td>
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<tr>
<td>2016</td>
<td>5.8%</td>
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</tbody>
</table>

Source: World Bank
How have food production and agricultural infrastructure improved in recent years?

**BOUAZGHI:** The country has made great progress in strengthening the sector, with increased local food offerings and improved rural living conditions. National food production in 2017 almost met demands for vegetables, fruits and meat, as well as 60% of cereals and dairy produce needs. The farming sector experienced average yearly growth rates of 8% over the last decade, and today it is worth $30bn.

In regard to irrigation, development of the hydro-agriculture plan extended its cover to 1.3m ha, and our short-term objective is to reach 2m ha by 2019. Additionally, the government rolled out low-consumption water systems covering 639,000 ha of land.

What are the main projects in development with foreign partners, and what can be expected?

**BOUAZGHI:** Modernising the sector and promoting private investment are part of Algeria’s strategy, and many measures have already been put into place, including a dedicated central cell to support projects until their implementation and a joint ministerial committee in charge of evaluating target investments in machinery.

There are seven mega-projects underway, with US and Irish partners working on areas of over 5000 ha in the wilayas (provinces) of El Bayadh, Adrar, Ghadaraïa and Khenchela. These projects will increase capacity of cereals, arboriculture, cattle rearing and dairy produce, and boost investment opportunities.

The government is also looking to strengthen its relations with project holders by providing technical assistance when needed. The main objectives are to increase production to support food self-sufficiency and boost exportation, while creating jobs and contributing to the development of remote rural zones. The goal is to create 1.5m jobs, assigning 80,000 of those to the fisheries and aquaculture segments. By 2020 Algeria hopes to reach its target of $1.1bn in exports.

How will ongoing development projects impact the fisheries and aquaculture segments?

**BOUAZGHI:** The Aquapêche programme, led by the ministry, has two main objectives: preserving halieutic resources by maintaining the current level of production at an average of 100,000 tonnes per year; and developing both marine and continental aquaculture to reach production of 100,000 tonnes per year. A total of 38 aquaculture projects were conducted in 2016, and a further 51 were realised in 2017, bringing annual production to 58,000 tonnes.

Another important project is the extension of fisheries infrastructure. 2017 was a good year for the production of alevin, which colonise continental structures and basin irrigation systems. Altogether, 3m young fish were bred, including species such as carp, black bass, pike perch and tilapia. Aquaculture specialists also learned to breed shrimps, a brand new product for our country. As for coral exploitation, the necessary legal framework has been finalised, and the market will soon be open to investors. By 2019 Algeria is expected to produce 200,000 tonnes of aquaculture products per year and see an increase in exportations.

What areas of agriculture will be the main concern for the government in the coming years?

**BOUAZGHI:** We will focus on areas of production such as milk, cereals, dry vegetables, fodder, red and white meat, fruits, dates and aquaculture. We are already working on reducing fallow lands, increasing quality of local produce, selecting products for export and modernising existing infrastructure. The ministry will look to strengthen the regulatory framework, boost crop production programmes, modernise the sanitary and phytosanitary systems, and promote public-private partnerships. We also aim to develop forest patrimony through exploitation of rustic trees such as almond and pistachio, increase production of wood to 200,000 cu metres per year and improve forestation rate up to 13%.
Go large
Focus on mega-farms to speed up development

As the Algerian state looks to tighten spending in the face of declining revenues resulting from the fall in oil prices, plans to curb the country’s import bill have become more pressing than ever. Imports have met with increased scrutiny, and in an attempt to promote local production, a rising number of goods are now subject to quota restrictions and tax hikes.

RISE OF THE MEGA-FARM: To bring Algeria closer to achieving this target, Ismail Chikhoune, president and CEO of the US-Algeria Business Council, told OBG it is time for the sector to move away from its traditional small-scale farming methods, and shift towards larger-scale projects to speed up development in the face of population growth and rising demand. Several initiatives to that end have been launched in recent years. These include Algeria’s Lacheb Group, which in 2015 signed an agreement with the American International Agriculture Group (AIAG) to establish a $100m joint venture (JV), El Firma, in the wilaya (province) of El Bayadh, to develop a range of projects in irrigation, livestock farming and the dairy industry.

In early 2017 the AIAG signed another $300m deal with Algerian Tifra Lait, establishing a JV in a variety of segments including cereals, potatoes, dairy and animal feed. Spread over 25,000 ha of land in the southern wilaya of Adrar, these projects are expected to yield 22,000 tonnes in cereal output, 105,000 tonnes of animal feed, 190m litres of milk and 20,000 tonnes of red meat annually. Adrar is also expecting another major project by the end of 2017: the AD21bn (€174.2m) Ennahda project is being developed on 30,000 ha of land, to be divided between a variety of crops such as durum, corn, soya and dates.

SOUTHERN EXPANSION: Projects in the south of the country should help breathe new life into a region where attempts to develop agricultural activities since the 1980s have met with only moderate success. Home to abundant groundwater and large swaths of uninhabited land, the region is an attractive one for those looking to establish mega-farms. However, according to local media reports, sector operators have voiced their concern about the potential environmental impact such activities could have on water resources and have called for cautious development. Transportation and distribution costs, as well as the availability of workforce, are other challenges that need to be addressed.

EMPHASIS ON TECHNOLOGY & KNOW-HOW: The strategy to engage foreign stakeholders has so far been a welcome move. “Large-scale farming is a major development for a country like Algeria, and JVs constitute a key opportunity to bring in foreign know-how,” Chikhoune told OBG. However, the scale of these projects means Algeria will need to continue to rely – at least in the short to medium term – on imports of certain goods and services dedicated to this type of development, including machinery and equipment.

Despite the challenges, investors have forged ahead with their projects, and other JVs involving foreign investors are also expected to come on-line soon. “Algeria should invest more in large-scale projects in partnership with foreign investors both for the credibility it provides in the eyes of financial institutions, but also to help achieve food self-sufficiency and potentially develop our export capacities,” Chikhoune added. With adequate access to financing and land, by Chikhoune’s estimates, the country could achieve food self-sufficiency as soon as 2027.

According to Umberto Torresan, senior business development manager at DuPont Sustainable Solutions, precision agriculture projects that increase farm efficiency and yield would be a game changer in Algeria. “Through wireless remote sensors that provide data about soil composition, irrigation, temperature and historical weather patterns, farmers could make the most out of their land and even triple their harvests,” Torresan told OBG. “The country would not only ensure self-sufficiency, but become a pioneer in the region, exporting a larger part of its agricultural production.”

In an attempt to curb the import bill and promote local production, a rising number of goods are now subject to quota restrictions and tax hikes.
Exercising strengths

Abdelwahab Ziani, President, Confédération des Industriels et Producteurs Algériens (CIPA), on economic self-determination

What are the main challenges ahead in Algeria’s drive towards food self-sufficiency?

ZIANI: The way to full self-sufficiency is challenging, but some key steps can be taken to be self-sufficient in certain products quickly. We need to have better exchange of trade know-how between producers in the north and south of Africa, and create logistics clusters to increase profitability and boost the emerging agri-business ecosystem.

Regarding regulatory factors, we need the government to maintain long-term stability, starting with a solid legal framework. We should not accept situations such as the one experienced with the price of bananas, which doubled from one day to the next because of a sudden change in Customs taxes. Lack of stability prevents the success of numerous companies in the food-processing sector, and damages the actual capacity of producers and importers to fulfil local demand. Building trust between companies and the government is a long-term task, and it needs economic stability to happen properly.

How can Algerian agricultural companies gain more export market share?

ZIANI: Algerian producers should not only look to Europe, but also think about exporting within Africa. Our continent sees $1.5trn of exports every year, and Algeria does not even hold 1% of this large cake. Ours is a strong country, with developed infrastructure and educated people, and this should translate into gaining greater access to African markets.

The president has intensified diplomatic work since 2013 by inviting every single African president to Algeria. We have seen some evolution already: the delay for currency repatriation has been extended to 360 days, which is the standard timeframe in the Maghreb. Now, what exporters urgently need is to be represented by a bank within the Economic Community of West African States to perform operations abroad. Overall, we need a shift of mindset about exports. Algerians are used to importing only.

Today, exporters should be trained on the model that we developed at CIPA, which includes a one-stop shop that deals with every aspect of exporting, from visa matters to entering trade shows abroad. The government should go with exporters and encourage them. This could be done through a more active presence of Algerian economic diplomats in Africa. As exporters, we at least expect that the ambassador would come and visit Algerian stalls when a trade-show is organised in Mali, Senegal or Côte d’Ivoire. In 2016 training was performed among commercial attachés to improve expertise and the selling of Algerian products. Ambassadors should also monitor commercial opportunities in their assigned countries.

Algeria’s production exceeds requirements for many agro-products: beverages, juice, confectionery, jam, salt – we could easily enter African markets with these products with the right strategy. Finally, we also need more aerial connections between Algeria and the rest of Africa, for both passengers and cargo.

What are Algeria’s primary agri-business assets?

ZIANI: Algeria’s main asset is its competitive energy costs. Producing something as simple as a plastic bottle in Algeria costs less than AD10 (€0.08) versus five to 10 times more in other African countries.

Another strength of our country is that it enjoys full rights to economic self-determination, with only a few large international groups leading their respective markets. If you look at the beverages segment for example, Coca-Cola and Pepsi share the market with another 600 companies, the top 50 of which have a larger market share than the two US giants.

Furthermore, the model of successful Algerian family businesses can be reproduced elsewhere in Africa. Algeria offers European quality at African costs, largely due to its low energy and labour prices.
Construction & Real Estate

Public investment helping reduce the housing shortfall
Broader slowdown leaves some projects on hold for now
Rise in cement production, targeting self-sufficiency
Rapid real estate growth draws international investors
High interest rates and red tape limit mortgage market
Building possibilities

The focus remains on transport infrastructure and housing

As a key industry for Algeria’s economic development and diversification, the construction sector’s growth forecast remains positive despite the slowdown of the wider economy. There are major projects in transport and housing in the pipeline, though a flatter rate of expansion is expected due to investment cutbacks, and the buoyant curve of the sector’s inflow throughout 2012-16 has begun to dip.

With the aim of building on previous advancements, the government launched a €233.7bn five-year investment plan (2015-19), which should ensure sustained expansion in construction as far as 2021.

However, with oil prices remaining relatively low for the last three years, Algeria faces subdued revenues and a shift towards austerity. This has led the government to put several projects on hold and resort to using the country’s sovereign wealth fund to meet expenditure commitments.

**CONTRIBUTION & FUNDING:** The construction industry’s contribution to GDP was nearly 6% at the end of 2016, upheld by earlier large-scale investments. In October 2017 the government stressed that housing and infrastructure development are key priorities, and the 2018 budget will see an 8% rise from 2017 in funding allocated to social transfers, including social housing. In the Finance Law of 2018, AD384.9bn (€3.2bn) was allocated to housing.

For the first quarter of 2017 the growth rate of the buildings, public works and water segments fell to 3.7%, from 4.4% in the same period of 2016. Moreover, low oil prices have affected the hydrocarbons sector, which is vital for domestic construction. The growth rate of infrastructural development of the energy sector dropped year-on-year in the first quarter of 2017, from 4.7% to 4.4%. Works in the pipeline across these sectors are being rearranged, and reprioritisation has halted many projects.

Ricardo Acabado, general director of Portuguese building firm Teixeira Duarte’s Algerian office, told OBG that elements of the five-year plan have been delayed. “Projects such as the Sports Stadium and the 50,000-unit housing scheme in Constantine have been brought to a halt. Others with less feasibility, which were in the pipeline because of the economic boom, have been set aside for redefinition.”

The downturn in the oil market has resulted in a lack of liquidity and delays. Over 70% of ongoing construction projects have payment delays of six months to a year. Nonetheless, public entities are providing leverage for companies to venture into public calls for tenders. National petroleum company Sonatrach – along with Sonelgaz, the state-owned utility in charge of electricity and natural gas distribution – has a $50bn investment plan for 2016-21. The hydrocarbons exploitation activities of these two companies entail a constant need for the construction of energy plants, housing to accommodate workers, transport, infrastructure and more.

To meet the demands of a dense, rising population that mainly resides on the northern coastline, the government has identified the development of transport infrastructure as vital for economic growth. There are several projects on the horizon for 2021, including the enhancement of ports and rail networks, while the National Roads Agency is providing financing for the expansion of roads.

**INVESTMENT:** The budgetary scale-down has resulted in long delays for companies in recovering their investments, affecting their balance sheets. In May 2017 information on the effects of the drop in investment was released by the General Association of Algerian Entrepreneurs (Association Générale des Entrepreneurs Algérien, AGEA). The association encompasses more than 1600 companies in the construction sector and, according to its assessment, around 60% of these were experiencing difficulties.

AGEA estimated that the overdue amount reaches AD750bn (€6.2bn). Often companies cannot afford
the costs of non-payment, resulting in the temporary ceasing of activity. When a project is paused the banking system does not allow the extension of credit immediately, and resuming works can take up to three months. Working with or for public entities can be unappealing for companies, and the market is seen as lacking in competition and possibilities for new stakeholders. The government filtering process has screened out many firms and discouraged some entrepreneurs aiming to access the market.

Few players have been able to avoid the impact of constraints and cutbacks. The economic situation is having a draining effect on the construction industry, and the smaller firms that manage to pull through are increasingly rallying under bigger ones with the capacity to sign contracts with state entities. “Today’s solid companies in Algeria are the ones that have survived the impact of the crisis through adaptation and diversification,” Rachid Bouabdallah, managing director of DOKA, a producer and supplier of wall and slab formwork, told OBG.

**HOUSING:** Population growth and rapid urbanisation have seen the government draw on public investment to meet rising housing demand. The ever-growing inflow from the countryside to urban areas is a challenge that the government addresses through subsidised housing provision.

Supplying affordable properties at a rate that matches the current pace of growth of Algeria’s cities requires the synergy of various national industries, as new housing needs to be followed up by social and logistics infrastructure to cover health, schooling and transport. Hence, despite budgetary limitations, housing programmes remain a priority for the government, both politically and economically, especially in the growing metropolitan areas of Algiers, Oran, Sétif and Annaba. To this end, the previous five-year investment plan for 2010–14 provided over €58bn that proved beneficial both to major companies and to local small and medium-sized enterprises involved in residential projects.

In the 2015-19 investment plan, the public funding projection for housing development alone amounts to €58bn, and the Ministry of Housing, Urban Planning and the City (Ministre de l’Habitat, de l’Urbanisme et de la Ville, MHUV) expects to deliver 2m more turnkey units by 2019. It is forecast that by 2020 residential construction will account for 41% of the industry’s total value, thanks largely to budgetary support from the government.

However, the slow progress of construction – combined with migration to urban areas – has resulted in the appearance of shanty towns, which severely degrade welfare due to overcrowding and a lack of basic amenities. The state is addressing this issue as part of its social policy, and the MHUV is carrying out a strategy that involves relocating the inhabitants of informal housing. The government is aiming to develop underprivileged areas by providing affordable, high-quality houses. This approach takes into consideration the revalorisation of sites where the new neighbourhoods are established, allocating funds to the construction of schools, medical facilities, commercial and leisure areas, as well as the expansion of transport connections. The strategy also includes the rehabilitation of old buildings. More than 20 districts in Algiers are currently being renovated with an eye to preserving the unique colonial-era historic buildings.

The government is aware of the need to be cost-effective while at the same time meeting sustainability goals. It is therefore seeking to establish a housing regulation institution that will also serve as a mechanism to combat corruption and, in the long term, transform the subsidisation system, which is currently seen as fostering dependence on the state.

**WATER MANAGEMENT:** The expansion of Algeria’s construction industry and housing development goes hand-in-hand with ensuring the availability of water. Its provision and management is crucial for a country with a vast desert and challenging geography. To address basic consumption demand, the future of agricultural irrigation, water potabilisation and desalination are among the key issues outlined in plans to upgrade infrastructure.

The state has also been pursuing the expansion of the country’s water management facilities. The current network has been in place since 2005 and comprises 75 dams across Algeria. Nine new dams are under construction, all of which are expected to be operational by 2019. According to the Ministry of Water Resources, five of them – with a joint capacity of 500m cu metres – will be in service in 2018. In early 2017 the government announced its aim to achieve a storage capacity of 12bn cu metres by 2030 with the aid of 139 dams.

Public-private partnerships (PPPs) are key to ensuring investment in water management and treatment facilities. For example, the €443m Magtaa Desalination Plant near Oran is the result of a PPP. In early 2017 the government announced its aim to achieve a water storage capacity of 12bn cu metres by 2030 with the aid of 139 dams.
With a focus on increasing passenger and freight capacity, the development of transport facilities and infrastructure will entail substantial public expenditure as well as private investment.

Algerian banks provided 70% of the financing for the project, with the remaining 30% coming from the Singapore-based Hyflux group. Launched in 2015, the plant is the largest of its kind in Africa.

In addition, the 2015-19 investment plan allocates €15bn for works on water treatment and management facilities, including the rehabilitation of some existing dams. Earth movements and natural degradation have caused a reduction in storage capacity, and a proposed project to drain and repair the dams is currently under assessment.

PORTS: Algeria also plans to upgrade its ports in the hope of making the country a competitive Mediterranean shipping hub. Planned developments include adapting existing infrastructure to accommodate larger vessels in the Port of Algiers, and construction of the Port of El Hamdania in Cherchell.

With 1200 km of coastline, 11 commercial ports and 95% of its merchandise transport activity being conducted by sea, the performance of Algeria’s port facilities is of the utmost importance. The current strong government focus on increasing capacity for both passenger and freight transport will entail the development of facilities and supporting infrastructure – such as roads, railways and logistics platforms – and will be accompanied by huge public expenditure, as well as private and foreign investment.

Planned government spending on port projects for 2015-19 totals AD550bn (€4.6bn). The new deepwater Port of El Hamdania is the biggest infrastructure project in Algeria. Under construction and experiencing delays, its completion is expected in 2024. Algerian Port Services Public Group holds 51% of the venture, and a consortium of China State Construction Engineering Corporation (CSCEC) and China Harbour Engineering Company has 49%.

The AD784m (€6.5m) project to modernise the Port of Djen Djen launched in 2015 and is progressing, while plans for the ports of Ghazaouet (west of Oran) and Ténès (between Oran and Algiers) aiming to improve various operational features are experiencing delays. Meanwhile, the capacity of the Port of Algiers’ piers is being expanded.

ROADS: Motorway expansion is also on the agenda. A key project will be the construction of the Trans-Saharan Highway in 2019. Algeria is set to deliver its segment of the highway, Route Nationale 1, a 2400-km road running from Algiers to Niger, 90% of which is complete. By July 2017 less than 600 km was unfinished, and 200 km remained to be built of a 500-km branch road to Mali.

The African Development Bank estimates the cost of the project to be around $3bn. It is likely to create construction opportunities in Algeria on all fronts. For example, demand for housing, hospitals and schools is expected to rise as regions develop their respective sections along the route.

The National Public Works Company (Société Nationale de Travaux Publics, SNTP), a state-owned company responsible for public works and transport infrastructure construction, has been entrusted to carry out the national programme to connect the remote regions in the south with the high plains. The company’s primary goal in the short term is to provide a road network to these areas to improve the distribution infrastructure for energy, water and food, as well as improving the development of agriculture. The SNTP’s pipeline for the next few years includes a 130-km route from Oud Ali Dema to Djanet, in Illizi Province in the south-east of the country, paving a 70-km road in Illizi and the completion of the East-West Highway.

AIR: Work is under way on a new 650,000-sq-metre terminal at Houari Boumediene Airport, comprising a 200,000-sq-metre building, adjoined parking lot and an energy centre. CSCEC is undertaking the construction, valued at AD90.3bn (€749m).

RAIL: The €32bn, 5000-km expansion of the rail network is a priority under the current five-year investment plan. There is a pressing need to reduce

<table>
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<tr>
<th>Building sector GDP*, 2011-16 (AD bn)</th>
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<td>2500</td>
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Source: ONS
*current prices
Construction materials prices have been rising rapidly in recent years due to increasing domestic demand, particularly in the cement and steel markets.

Inflation has also been halting projects, and there is a shortage of building materials on over 80% of construction sites, according to AGEA.

The Algerian cement market is undergoing a transformation, with self-sufficiency the goal. Though demand does not currently surpass the available supply, Groupe Industriel des Ciments d’Algérie is implementing a programme to ensure the availability of cement by increasing production from 12m to 20m tonnes per year. By 2019-20 the group expects to have reached its goal thanks to the expansion of cement plants in Chlef, Ain El Kebira and Zahana, in addition to the construction of two new plants in Oum El Bouaghi and Béchar.

In January 2017 Abdeslam Bouchouareb, then-minister of industry and mining, announced the inauguration of a second production line at Ain El Kebira, in Sétif Province. Bouchouareb said it would help in the pursuit of annual cement production of 5.5m tonnes from the site, setting the stage to begin exporting the surplus in 2018.

The tender for one of the new plants was awarded to Germany’s Thyssenkrupp, which announced plans for construction in Oum El Bouaghi Province in January 2017. The plant is due to be operational in 2019 and will have a production capacity of 6000 tonnes of cement per day. Located in the north-east, it will benefit from proximity to the ports of Annaba and Skikda. Both the expansion of existing plants and the construction of new ones will follow an energy-efficiency approach. Some of the measures comprise recycling schemes for the plant’s waste, water treatment and the rehabilitation of quarries.

In July 2016 the CILAS cement plant – a €270m joint venture between Lafarge Algeria and Souakri Group with a capacity of 2.7m tonnes per year – commenced activity in the city of Biskra.

“Ensuring cement production locally will be a positive development for everybody in the sector,” Paul Magera, CEO of specialty chemicals company Sika El Djazair, told OBG. “Importing cement does not make road traffic congestion, and improve capacity for moving both passengers and freight across the country beyond urban areas by rail.

There is a particular focus on the north-east, for two main reasons. The first is the opening of the line linking Annaba with Tunisia, which is a major landmark for Algeria's regional connections. The second is the drive to boost mining activity in the region, particularly phosphate extraction around Tébessa. Reinforcement of the lines linking Tébessa, Ouenza and the rest of the area’s mines to the Port of Annaba is already under way.

In addition, annual output of 3.5m-7m tonnes of steel products in Jijel has driven efforts to ensure a reliable rail route to the port of Skikda. The construction of a high-speed line running parallel to the East-West Highway is also planned.

SELF-SUFFICIENCY: The price of construction materials has been rising rapidly in recent years due to increasing domestic demand, particularly in the cement and steel markets.

The import ban enforced in early 2017 also affected the sector. Among other products, imports of cement, steel and the metal wire used in formworks and tiles are restricted.

In July 2017 this was extended to industrial equipment, such as electrical transformers, plumbing products, and marble and granite. The restrictions are a result of the current five-year investment plan’s objective to promote and capitalise on Algeria’s natural resources. Although development of the country’s capacity to produce iron, steel, cement and phosphates has been slow so far, these Algerian-sourced materials have been used in the construction of several facilities. Currently, there are 21 provinces being explored for these resources.

Imports of cement, steel and other materials were restricted in 2017

The Algerian cement market is undergoing a major transformation, with a rise in annual production from 12m to 20m tonnes being targeted.
The new investment code aims to foster public-private partnerships and simplify administrative processes.

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For public works, a PPP in road construction requires a 30% investment in Algerian dinars. This rises to 45% for rail works and 50% for housing projects. Taking into consideration the devaluation of the dinar, present conditions for investment are uncompetitive as they do not offer attractive returns. However, there are signs of improvement. A new investment code was approved in 2016 aimed at fostering PPPs, simplifying administrative processes and easing liaison between stakeholders by removing the 51:49 rule under some circumstances.

Investment:
The economic strategy includes further promotion of private investment as well as boosting foreign partnerships. Under its current legal framework, Algeria’s appeal has waned due to restrictive requirements and complex administrative processes. Investments must be executed under the 51:49 rule – a regulation that limits foreign companies to a minority stake in local joint ventures. Foreign investors must therefore partner with an Algerian-owned shareholder, and are bound to retaining most of their capital in local currency.

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Thus, while around 70% of construction projects are owned by the state, there is a growing movement of smaller investors and entrepreneurs seeking bank credit for projects. Foreign investors with an eye to long-term strategies and an understanding of the dynamics of the market may find opportunities.

The process of diversification is also set to benefit local companies, but dependence on Chinese investment is a reality across Africa, and Algeria is no exception. Of the major ongoing building works being carried out by Chinese companies, the construction of the Great Mosque in Algiers by CSCEC is particularly representative of foreign capital development projects. The layout was designed by German architectural firm KSP Jürgen Engel Architekten and is expected to be finished by 2020. External players are slowly entering the Algerian construction market, with Egyptian and Turkish firms also benefitting from the momentum in housing.

Adding Value:
Major construction projects have resulted in an increased number of housing developments in surrounding areas. For instance, the Technopark being developed in Sidi Abdellah is already attracting real estate development to that area in Algiers province. The 100-ha park will host companies specialising in technology. In July 2017 then-prime minister Abdelmadjid Tebboune announced the delivery of 16,000 units later in the year, with a total of 26,000 to come by 2019.

Construction of the Great Mosque and the new Houari Boumediene Airport terminal provide opportunities for developers, especially in the luxury segment. There are several projects in the pipeline in the Algiers district of Bab Ezzouar, including towers with housing and office space.

Outlook:
A catalyst for socio-economic progress for the country despite the recent austerity measures, Algeria’s construction sector is likely to continue to expand, albeit at a slow rate, with increased focus on priority projects. Public expenditure should sustain construction levels as the current five-year investment plan unfolds further. Public budget cuts are likely to encourage private, domestic and foreign PPP ventures, building on previous efforts to address insufficient infrastructure and rising demand for housing. In the near future, the Banque Extérieure d’Algérie is set to step up its activity in an effort to leverage Algerian companies by establishing offices in other countries, enabling it to support firms in their efforts to expand into foreign markets.

In addition, to comply with international standards, modernisation is necessary in the sector. Meeting these will depend on the use of upgraded equipment, skilled personnel and up-to-date organisational schemes. In turn, this is driving the government to restructure its strategy, broadening the possibilities for investors in the construction sector.

26,000 new housing units are expected to be built in Sidi Abdellah by 2019.
Planning ahead

Abdelghani Zalene, Minister of Public Works and Transport, on modernising infrastructure and encouraging investment

How do you expect public spending to evolve in the sectors overseen by your ministry?

ZALENE: The country’s current economic juncture is conditioned by low oil prices. This shock has been absorbed thanks to infrastructure projects realised through development plans. Our approach is to maintain efforts to rationalise public spending through tighter controls and greater efficiency of state investments. We also aim to improve the organisation of projects along hierarchical lines, by prioritising projects that carry a significant economic and social impact.

What measures could increase the role of public-private partnerships (PPPs) in infrastructure projects?

ZALENE: PPPs represent a solution full of advantages, but they remain very complex in terms of bringing into play and following through in the long term. Nonetheless, specific measures have been initiated by the government to put in place a more favourable environment for PPPs, including administrative, financial and tax reforms. We are also working on adapting the legal framework to better promote private investment.

What are the priorities for Algeria in terms of modernising transport infrastructure?

ZALENE: Modernising transport services and infrastructure is one of the major objectives of the presidential programme, and we are targeting several segments at the same time. In terms of highways, we aim to build 1000 km of internationally connected roads by finishing the installation of the East-West Highway, the North-South Highway and several connecting expressways. In the railway segment, the ministry is leading a diversification and modernisation programme of the existing network, as well as a densification plan. Our aim is to increase the size of the network from 4000 km to 12,500 km. As for urban transport, there is an ongoing project to extend the Algiers subway, and also projects for tramways in the cities of Sétif, Ouargla and Mostaganem. We recently launched a brand new tramway in the city of Sidi Bel Abbès. Air transport is also an important segment, with the extension and modernisation of several airports currently under way. For example, the new Algiers international terminal is set to be operational by the second quarter of 2018 and will have a capacity of 10m travellers per year, while the new terminal in Oran aims to achieve a capacity of 3.5m travellers per year. Lastly, several ports are being expanded, notably the ports of Oran and Djen Djen.

How can the participation of local small and medium-sized enterprises (SMEs) be encouraged in projects financed by the state?

ZALENE: Promoting local SMEs is at the core of our development objectives. Our sector should always support the growth of small companies. We want SMEs to receive preferential participation in every project conducted by the state to ensure the development of national production of goods and services. To do this, we have been setting up a selection system that takes into consideration the capacity of local companies to participate in a project, either by themselves or together with a group of other companies. It is crucial that public needs get fulfilled as much as possible by national firms, especially SMEs.

At what stage of development is the central port project in El Hamdania?

ZALENE: We are currently going through the technical finalisation phase, while removing administrative obstacles that remain in the way. This port aims to become a significant cargo centre in the west Mediterranean Sea. Integrated with the North-South logistics corridor, it will play a crucial role for trade between North and Central Africa. In addition, it will facilitate the development of nearby industrial zones, which will boost the restructuring of the country. This port will play a big role in the Algerian economy for the next two decades.
Solid foundations

Rabah Guessoum, CEO, Algerian Industrial Cement Group (Groupe Industriel des Ciments d’Algérie, GICA), on meeting growing cement demand

What are the ambitions of GICA in terms of growing its production capacity over the coming years?

GUESSOUM: Total production today exceeds 12.5m tonnes of cement per year, which represents 55% of the Algerian market. To meet the growing demand, an ambitious development programme is under way to strengthen production capacities and diversify the product range for cement. With an investment of AD243bn (£2bn), the programme should allow GICA to reach production levels of 20m tonnes by 2020. The plan aims to build two new cement factories in the towns of Bechar and Sigus, in the wilaya (province) of Oum El Bouaghi with production capacities of 1m tonnes and 2m tonnes respectively, while extending production capacities of three cement plants in Oued Sly of the Chief wilaya, Ain El Kebira, in Sétif wilaya, and Zahana in Mascara – all of which will add 4.5m tonnes per year to the national production.

Another part of the strategy is to diversify product offerings. In the segment of cement by-products, the development plan aims to achieve 7m tonnes per year of granulates and cracked sand, against 4.4m tonnes today, and 3.8m cu metres of ready-mix cement, against 2.8m cu metres currently. In addition, maintenance units will be modernised, a cement and concrete technological cluster will be created and cooperation between universities, research centres and production units will be enhanced. We also aim to rationalise energy consumption. This important development plan should reduce the price of cement on the Algerian market. We can already see the effects of an increased offer, as prices have been decreasing significantly in the last six months. This basic trend should remain going into 2018.

How do you see the cement market evolving?

GUESSOUM: As a public operator with the mission to satisfy constant growing national demand, we notice a clear trend towards diversification. Segments as diverse as construction and public or hydraulic works are all evolving as consumers’ demands increase. Cement for the oil and gas sector in particular demonstrates interesting potential, although it requires detailed research and development efforts. The Algerian market is becoming more competitive with private operators now starting to produce; therefore, the focus on client satisfaction has become crucial. The government aims to pursue its investments in infrastructure and housing, which means local demand for cement will keep growing in the years to come. The sector has also seen the arrival of multiple private cement producers, which should help revitalise the market. As a national producer, our aim is to remain a major player that can cover government project needs, while also meeting the demands of private investors. As a public operator, we also act as a market regulator, and the responsibility of the group is to maintain its pricing range by mastering its costs and avoid placing buyers at a disadvantage.

To what extent is Algeria in a position to export some of its cement production?

GUESSOUM: Discussions with foreign operators to export Algerian cement production abroad have started already, although satisfying 100% of domestic demand remains the priority. In parallel, inspection visits are being carried out at ports to check their cement exportation capacities. Some production units, located near maritime infrastructure, are more likely to export their production. Targeted markets for export operations include Libya, Syria and West African countries.

To enhance these export potentials, logistics facilities for cement handling and vessel loading have been strengthened. There are ongoing discussions with the Ministry of Transport to obtain port concessions to stock cement and clinker, and install the necessary equipment. The cargo rail network will also connect cement factories directly with ports, which will greatly speed up and enhance the cement transport capacity. This will allow us to facilitate exports in the near future.
REAL ESTATE OVERVIEW

Stock answers

The government continues to address the housing shortage

Thriving revenues from hydrocarbons led to a period of widespread residential building in Algeria, with the housing segment leading the construction sector as the largest market in 2011-15, accounting for 41% of the total. Sustained growth is forecast until 2020, driven by an urbanisation expansion rate of 2.7% and a rising population surpassing 40m.

The minister of housing and urban development at the time, Abdelmadjid Tebboune, who also served as prime minister, said in early 2017 that Algeria’s housing stock would reach 8.9m units by 2018, and that 2m more will be delivered by 2019. The main cities provide ample opportunity for real estate developers. The Mutual Guarantee Fund for Property Development has a register of more than 4700 developers, of which fewer than 200 are state owned. Most belong to the private sector, with several of them backed by foreign capital.

MARKET: Although Algeria’s real estate market stagnated as a result of a decline in transactions in 2016-17, there was no plunge in property prices, contrary to expectations. In fact, leasing rates began to rise in the second quarter of 2016.

The market currently comprises some 8.5m dwellings, 50% of which are managed by the state. However, demand continues to outstrip supply and the growth of cities creates a need for affordable, high-quality residential property.

It is a difficult market to monitor, but according to local real estate agency Lkeria the rental stock totals more than 2.5m properties. The two main housing types on offer are three-room apartments of 50-100 sq metres, and detached houses no larger than 200 sq metres. Rents are high in the main cities, and grew by 6% in 2016. The average monthly rent for a three-bedroom apartment in Algiers was AD62,100 (€515) in 2016. Taking into account the Algerian average monthly income of AD30,000 (€249), these prices are unaffordable for much of the population.

A shortage of properties in the capital has resulted in significant price augmentation in some neighbourhoods, particularly Hydra and Kouba. The cities of Oran, Constantine, Béjaia and Annaba have also registered a progressive rise in property prices. In Oran rent for a three-bedroom apartment is as high as AD36,954 (€307) per month. In Annaba rent in a quiet neighbourhood can be up to AD34,300 (€285). In the case of detached houses or villas, rents can reach AD69,600 (€577) in Algiers or AD39,000 (€323) in Blida, Algeria’s fifth-largest city.

LEGAL FRAMEWORK: The 2017 Finance Law reorganised taxation for real estate, raising the tax liability for some. For instance, the tax exemption that has benefitted tenants renting properties smaller than 80 sq metres since 2009 has been set aside.

New property taxes – alongside increased taxation and the import ban on building materials (see Construction overview) – will impact real estate prices, affecting both tenants and owners. Many have been left unable to afford housing as a result. This situation has also led to informal or illegal practices such as the involvement of anonymous intermediaries, who now manage 80% of housing transactions, further raising prices, according to the Federation of Real Estate Agents Intermediaries.

Many real estate agents have found that regulation of the segment is insufficient and have suggested the implementation of a legal framework to address issues such as the increase in anonymous intermediaries and the regulation of short-term rentals – a growing practice in the country, especially during seasonal periods – that often result in non-traceable, illegal transactions.

In its May 2016 Article IV Consultation, the IMF stated that Algeria’s business environment continues to be hampered by “pervasive bureaucracy and cumbersome administrative procedures”. To address these challenges, and as part of efforts
The government is encouraging property purchases by subsidising up to 20% of down payments made by low-income households.

to diversify the economy, authorities amended the country’s investment code in July 2016, simplifying the administrative requirements for investors and thereby reducing the bureaucratic burden.

QUALITY ADJUSTMENT: This intervention is welcome given the rising interest from international investors in the rapidly growing and still-maturing market. However, a comprehensive approach to the local environment beyond macro-investment schemes is required. In the World Bank’s “Doing Business 2018” report, Algeria dropped 10 places to 166th out of 190 countries, down from 156th in the 2017 ranking. The country fell 10 places in the acquiring a construction permit category. The World Bank’s quality of land administration index gives Algeria seven out of 30 possible points and one out of eight on reliability of infrastructure.

“The government should open the market to investors as there are still too many constraints to entry,” Paul Magera, CEO of specialty chemicals firm Sika El Djazaïr, told OBG. “Algeria needs to ease its business environment to convince small and medium-sized enterprises, and not only big groups.”

MORTGAGES: The mortgage market contributes less than 1% to GDP. As many households cannot afford a mortgage, the finance sector registers down payments through non-mortgage credit or microfinancing. The government is trying to encourage property purchasing with subsidies of up to 20% of down payments for low-income households. However, obtaining a loan from Algerian banks is complicated and involves high interest rates, and many are turning to informal markets. Total bank lending for mortgages amounted to $31.4m in 2015.

NATIONAL POLICY: There is pressure on the government to provide low-income housing to a fast-growing population. For two decades the effort to tackle the housing shortage has been successful, having reduced the deficit from 3m in 1999 to 350,000 in 2016. Subsidised provision for low- and middle-income segments forms the majority of the government’s social aid and investment allocation to ensure access to property for insolvent and disadvantaged households. It takes into consideration the variable incomes and the development of underprivileged neighbourhoods by addressing areas such as public rentals, state housing, rural housing, rent-to-buy schemes and subsidised housing.

Launched in 2004, Algeria’s Public Promotional Housing (Logement Promotionnel Public, LPP) allows the acquisition of public housing by private tenants. It has proved efficient for middle-income citizens, and is designed to mitigate dependence on the state. The management of this operation was assigned by the Ministry of Housing, Urban Planning and the City to the Office of Property Development.

Buyers benefit from price reductions of 10% if payment is made up-front, 7% if payment is made within three years, and 5% if within three to five years. The programme also allows for undocumented occupants of social housing to regularise their situation. However, it forbids tenants to lease their property unless it is to a close family relation.

The Agency for Improvement of Housing Development, which is in charge of the rental management, construction, renovation and analysis of public lands and heritage sites, is expected to deliver 350,000 housing units between 2015 and 2019, 50,000 of which will be part of the LPP programme. As of 2017, 8567 units had been delivered.

PRIVATE SECTOR: Shifting focus from the high-income population and luxury segment, where they have a large share of the market, private developers have begun to expand their services to mid- and lower-income segments. Hasnaoui Group is developing El Ryad City in Oran, a real estate project extending over 450,000 sq metres with contemporary buildings surrounded by greenery. The project was awarded the energy-tempered climate award at the Green Building & City Solutions Awards 2016. The design is in line with sustainability goals, an issue typically neglected in Algeria’s housing sector.

The drive to boost tourism is a boon for developers, which can now pursue projects such as shopping malls, hotels and more sophisticated marina infrastructure. However, state control over the market is a major obstacle limiting their activity.

Moreover, throughout 2017 the halt in many construction sites as a result of a lack of resources, cutbacks and unpaid debt has led to foreign companies threatening to leave the country, which could slow things down further and affect Algeria’s image.

OUTLOOK: The Algerian real estate sector depends on the government’s ability to supply the infrastructure to satisfy residential and commercial demand while overcoming the existing deficit. Affordable pricing is of the utmost importance, provision of which during the current economic deceleration will be a challenge due to price inflation. However, sector growth should be assured for the next several years as it is a strategic priority of the government, providing a range of opportunities for developers.

Property registration in the region, 2017

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<tr>
<th>Country</th>
<th>Time (days)</th>
<th>Cost (% of property value)</th>
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<tr>
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<tr>
<td>Algeria</td>
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</tbody>
</table>

Source: World Bank
OGB countries consistently outperform the advanced economies, BRICs and other emerging markets on foreign trade and investment, with a compound annual GDP growth rate of 4.1% in 2012-17.

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GDP & population figures, 2018

<table>
<thead>
<tr>
<th></th>
<th>GDP</th>
<th>Population</th>
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</thead>
<tbody>
<tr>
<td>Advanced economies</td>
<td>6.5%</td>
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<tr>
<td>BRICs</td>
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<td>OBG 3S</td>
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<tr>
<td>Other emerging markets</td>
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<td>41.4%</td>
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GDP growth, 2012-19F (% constant prices)

Source: IMF

OBG Market Reports 2018
The yellow slice of the pie

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LA SÉCURITÉ COMMENCE PAR L’INFORMATION
Transport

Emphasis on maritime and rail infrastructure upgrades
Vast deepwater port to be constructed in El Hamdania
Expanding public transport networks in major cities
New facilities to boost logistics sector competitiveness
Peak performance

The development of key projects supports modernisation

Meeting the demand for transport infrastructure in Africa’s largest country is a priority for the government of Algeria. In 2015 the country began unfolding its current five-year development plan, a major sector reconfiguration programme that allocates AD832.7bn (€6.9bn) to the upgrade, extension and construction of strategic segments, primarily maritime and rail. The strategy builds on previous advancements that aimed to boost production and diversify the country away from hydrocarbons. Still, diversifying the economy depends on Algeria’s capacity to utilise modern, intermodal transport connections, open the country to regional markets, gain international competitiveness and ensure domestic mobility.

The fall in international oil prices has slowed down the sector transformation process. Traffic congestion and over-dependence on road transport, inefficiencies in maritime freight management and a growing demand for urban transport are among the priorities to be tackled. Nevertheless, the sector remains a key contributor to the economy, with transport and communications accounting for approximately 10% of GDP during the 2009-16 period.

**Higher Investment:** The sector is set to benefit from a rise in investment. Abdelghani Zaïène, minister of transport and public works, told local media in November 2017. The 2018 Finance Law allocates the sector AD380.76bn (€3.2bn), a 507% increase on 2017. These funds will be directed to large-scale projects such as the port in Cherchell (AD150bn, €1.2bn); maintenance of roads, ports, airports and railways (AD65bn, €539.1m); the construction of new roads in remote areas (AD28bn, €232.2m); and transport upgrades in Algiers (AD6.5bn, €53.9m). In addition, an estimated AD178.15bn (€1.5bn) will be spent on completing existing projects.

**Sector Reorganisation:** To meet performance goals and organisational standards, the government laid out a plan in 2014 to restructure and centralise all maritime transport companies that operate in the public sector. In early 2016 four public groups emerged to focus on different areas of transport. Serport, holding AD54bn (€447.9m) in capital, manages port services through 10 companies and one management company for fishing ports. It also handles port logistics through three joint ventures pertaining to container management.

Meanwhile, Logitrans Group, with AD2bn (€16.6m) in total capital, is in charge of logistics and the transport of goods, and holds seven subsidiaries of the National Company of Road Transport. Transtev, the third group, holds AD3bn (€24.9m) in capital and manages ground passenger transport via metro, tramway, cable car and bus. The fourth group, the Algerian Maritime Transport Group (Groupe Algérien de Transport Maritime, GATMA) is responsible for all maritime transport – both passenger and cargo – as well as ship repair. With AD22bn (€182.5m) in capital, GATMA became operational in early 2017 as Compagnie Nationale Algérienne de Navigation (CNAN), and several national shipping companies and subsidiaries were regrouped.

**Maritime Transport:** Some 95% of the country’s freight movement takes place via sea transport, and container ship transit represents the cornerstone of Algerian port activity. With a coastline extending around 1200 km, Algeria is home to 11 commercial ports – of which Algiers, Oran and Annaba attract most of the activity – and accommodates a total movement of merchandise surpassing 130m tonnes per year. Therefore, upgrading port infrastructure and utilising logistics platforms to gain efficiency and dynamism is at the core of the government’s strategy to compete in the Mediterranean.

Despite government efforts and budget allocations to diversify the sea freight companies, some deceleration was noticeable in third quarter 2017 figures, with a slight decrease in volumes at the Port
of Algiers mainly due to import quotas. Some 551 ships docked in the port that quarter, according to Entreprise du Port d’Alger, 5.5% less than in the same period in 2016. Although the government aims to boost exports, imports continued to represent the bulk of goods passing through the port, at 84% of the total. They increased by 1% during the quarter as a result of rising volumes of cereals.

China is the main exporter to the country, holding a nearly 18% share of total incoming product value in 2016, according to the World Bank, followed by European and Latin American countries. Brazil, for instance, has been growing its business relationship with Algeria in recent years, and exported over $1bn to the African country in 2015 and 2016. On the other side of the relationship, $1.6bn worth of Algerian products flowed into Brazil in 2016, a 10% decrease on 2015 volumes. Salaam Gateway, a market researcher focused on Islamic countries, reported.

It is not unusual for vessels to return to their origin empty as export activity remains low. The government is working to reverse this trend by supporting exporters such as Fertial (an Algerian-Spanish partnership covering petrochemicals, agriculture and industry) and Cevital (the primary private exporter and largest conglomerate), the latter of which is aiming to export $3bn in goods in 2020. “Logistics companies are hoping for an increase in exports in the short term,” Abd El Illah Melaika, county manager for DHL, told OBG. “Given that hydrocarbons comprise 97% of all exports, it is a relatively small market for competition.”

**SHIPPING CAPACITY:** Algeria’s merchant marine fleet carries less than 3% of the annual 130m-tonne volume that passes through the country’s ports. This illustrates a clear opportunity in transport activity. Through the National Marine Fleet Development Plan, CNAN, now under GATMA, added a new vessel to its existing eight cargo ships for its subsidiary CNAN Nord in July 2017. Built in China with a capacity of 12,000 tonnes – or 800 containers – the ship’s purchase is one of the latest moves in the pursuit to increase national maritime freight’s market share to 30% by 2020 through the acquisition of cargo ships. The plan outlines the purchase of 25 new ships: 18 for CNAN and seven for another subsidiary, CNAN Med.

Bader Righi, CEO of GATMA, told OBG, “One of the main points of our strategy is to target the potential of freight transport, in particular the transport of inputs and outputs from the industrial and agri-food sectors, including cereals for the Algerian Inter-Professional Cereal Office.” According to Righi, in 2015 Algeria imported nearly 15m tonnes of cereals. “That is why our ship-owning subsidiaries will acquire four bulk carrier vessels to transport cereals, and the freight will be payable in dinars, which has the advantage of saving foreign currency reserves and improving the country’s balance sheet,” he said.

However, Boudjema Talai, the then-minister of transport and public works, acknowledged in early 2017 that more action should be taken. He told local media that maritime business associations needed to work with foreign companies to build the fleet and improve the sector’s competitiveness.

CNAN Nord has already taken steps in this regard, signing an agreement with the France-based global maritime leader CMA CGM Group in November 2016 to develop its shipping capacity. The agreement focuses on operational and logistical cooperation, comprising provision of container equipment, space for Algerian products on CMA CGM’s ships, and the exchange of expertise and training. The deal could also allow access to a shipping line that links Algeria to northern European countries.

In August 2017 CMA CGM announced the launch of a new maritime service, Black Sea Med Express, to connect the Black Sea and the Mediterranean. The company will operate the service from Annaba and two other Mediterranean ports.

In mid-November 2017 CNAN Med and Turkish shipping company Arkas signed an agreement to transport completely knocked-down parts for Renault Algérie’s production unit in Oran. This shared fleet programme will connect the Romanian port of Constanta and Russia’s Novorossiysk with the Port of Arzew in Algeria via the Turkish hub of Marport. Three vessels with a total capacity of 1700 twenty-foot equivalent units will be dedicated to the line.

**AIR TRAVEL:** Algeria is in the process of upgrading its air travel segment by expanding its flight connections and developing domestic airport infrastructure. Large budgets have been allocated from the national Treasury to the nation’s 35 airports, 13 of which operate international flights. The country’s aim to boost tourism, and air travel overall, is expected to see major results in 2018. Major expansions of the two largest airports are under way. The new terminal at the country’s largest airport, Algiers’ Houari Boumediene Airport is expected to be completed in 2018. For the country’s second-largest airport, the Ahmed Ben Bella Airport in Oran, work on a new terminal...
EXPANDING FLEET & REACH: Algiers’ Houari Boumediene Airport welcomes more than 6m passengers per year. The dominant airline is the flag carrier, Air Algérie, which set in motion a €600m investment plan for the 2013-17 period to enlarge its fleet. This started with the acquisition of three new planes with a capacity for 150 passengers each and the ordering of two new cargo planes. In 2017 the airline began unfolding its 2025 strategy. With the aim of expanding its current fleet of 59 aircraft between 2018 and 2025, the company plans to charter an Airbus A330 and purchase 40 airplanes for its long-haul itineraries, which include new connections in Africa, such as the agreement reached with Gabon in April 2017 to establish a route between Algiers and Libreville for both passengers and cargo. The carrier also expects to sign agreements with Chad, Ethiopia, Benin and Togo. In addition, Air Algérie switched to the integrated Amadeus booking system in May 2017, which should enhanced its booking capacity and efficiency.

In May 2017 Tassili Airlines, the second state-owned airline and a subsidiary of oil and gas company Sonatrach, announced it was negotiating with US aircraft manufacturer Boeing to establish aircraft equipment production in Algeria. Tassili has also announced it will acquire three Boeing 737-800 for $294m. The purchase will enable the airline to engage the transportation of hydrocarbons, increase its passenger connections, mainly to France, and open further routes in Africa. The aircraft are expected to begin operating in September 2018.

While Air France and Turkish Airlines are the other main companies operating flights in the country, Iberia-British Airways and Vueling – Iberia’s low-cost carrier – have a presence too. In July 2017 Air Canada launched direct flights from Montreal to Algiers. Airlines operating in Algeria have identified a transformation in the country’s air travel culture. While peak levels were recorded during seasonal periods of previous years, it seems that more sustained activity is now taking place throughout the year.

ROAD NETWORK: Back on the ground, Algeria enjoys one of the most modern road networks in Africa thanks to state investment efforts. The iconic, 1216-km six-lane East-West Highway crosses the country from its border with Morocco to Tunisia. The national 2015-19 development plan aims expand the existing road system by another 5600 km.

Despite budgetary constraints, regional projects are steadily connecting the country. The last remaining section of the East-West Highway running

A new terminal at Algiers’ Houari Boumediene Airport is expected to be completed by the end of 2018, increasing the facility’s annual passenger capacity from 6m to 10m. Construction works at Algiers’ Houari Boumediene Airport were 75% complete as of September 2017, according to local media reports. The contract was granted to China State Construction Engineering Corporation, which is also responsible for building the adjoining 4500-vehicle parking lots. The works will boost annual passenger capacity from 6m to 10m. The new AD90bn (€746.5m) terminal will accommodate all international flights, while Air Algérie’s domestic connections will operate from the existing terminal. The airport will have the capacity to welcome more international air carriers and expand Algeria’s regional air transport links, opening up additional market opportunities. The international airport will be connected to the Algiers city centre via a 9.5-km metro line built by the state construction group Cosider (see analysis). Initially expected to be completed by 2019-20, the rail line is now forecast to be operational in 2021 due to difficulties encountered on the ground, Zaâne told local media in September 2017. When completed in 2018, a 3-km railway link running from the capital’s Bab Ezzouar station will also provide freight transport to the airport.

To ensure a competitive performance for international flights at Oran’s Ahmed Ben Bella Airport, the new terminal will be able to handle 3.5m passengers per year when completed, up from an initial estimate of 2.5m. The facility is expected to be operational by the end of 2018. The project also includes the modernisation of the current terminal, and aims to transform the airport technologically through the use of advanced hangars and storage facilities. The goal is to increase the airport’s cargo capacity from 2000 tonnes per year in 2016 to 15,000 upon completion.

Strengthening the country’s ability to carry out export activity via air is indeed a priority. Alongside Oran and Algiers, there are a number of projects in the government’s pipeline to enable the country’s airports to handle freight cargo, in line with the national 2015-19 growth strategy.

Yousef Safir, CEO of Etablissement National de la Navigation Aérienne, told OBG that Algeria would highly benefit from the creation of an air transport hub in Tamanrasset, in the far south. “It would make sense geographically to connect sub-Saharan countries with the Middle East and Europe. Nonetheless, inter-African air traffic will only grow as the politcal stability of the region increases,” he said.
between the town of Drean and the Tunisian boarder will be completed in early 2019, Zalène told local media in November 2017. In the wilaya (province) of Béjaïa, meanwhile, the construction of a 1700-metre-long tunnel in Sidi Aïch will grant access to the 100-km route linking Tala Hamza, El Kseur, Sidi Aïch, Amalou, Akbou, Tazmalt and M’chedallah to the East-West Highway. Payment delays have posed some challenges for the Chinese firm building the tunnel. However, in July 2017 wilaya officials and a representative of Algeria’s motorway agency, Agence National des Autoroutes (ANA), pledged to catch up on payments.

The crown jewel of Algeria’s road network is the 4500-km Trans-Saharan Highway, more than 2300 km of which lie in the country. Algeria’s portion of the $3bn regional project is set for completion in 2019. According to the Trans-Saharan Road Liaison Committee, only 600 km of the Algerian RN1 segment – the principal north-south road axis – remain to be completed. The route also branches out to Mali with a 500-km road, of which 300 km has been finished. Plans to connect Algiers with Lagos in Nigeria will further improve links to sub-Saharan countries.

**EUROPEAN LINKS:** Algeria signed a cooperation agreement in July 2017 with the European Investment Bank (EIB). The accord focuses on the reinforcement of security aspects along the Trans-Saharan Highway. In an exchange of know-how, the EIB will conduct a study of the country’s main roads, including a road safety audit concerning the East-West Highway – particularly the 1500-km segment linking Oran to Béjaïa.

The EU and Algeria have collaborated to develop the latter’s transport and logistics strategy through several initiatives, such as the €4.5m Logismed Soft regional programme. In cooperation with the European Commission and ANA, Algeria received €2.5m in funding. The role of the EU in implementing Algeria’s transport plans includes strategic financing support for road developments and the Port of Béjaïa.

**RAIL EXTENSION:** The rail network is another central axis for freight and passenger movement. To drive socio-economic development, the government plans to extend rail across the country by expanding the network (2300 km are under construction, according to the Ministry of Transport and Public Works), refurbishing wagons and reinforcing freight capacity. The National Rail Transport Company (Société National des Transports Ferroviaires, SNTF) is the state company entrusted with the management of passenger and freight transport, and the Algerian Railway Company (Anserif), created in 2005, is responsible for the administration of the network’s infrastructure.

Algeria’s rail network extends for a total of 4575 km, of which 3854 km are in use. The breakdown in use varies by region. According to SNTF, 90% of movement in the north-western region of the country is passenger activity, whereas merchandise transport makes up 90% of the activity in the north-east. Several routes have been launched in 2017: In April 2017 SNTF announced the operation of the Algiers-Tizi Ouzou line, with a journey time of 80 minutes. The long-awaited reopening of the Annaba-Tunis line in May 2017 is set to boost opportunities for commerce and tourism. Initially scheduled for completion in August 2016, tunnels on the route had to be enlarged to accommodate modern locomotives, which will now travel at 160 km per hour (km/h). The Oran-Bachar and Oran-Saïda lines became operational in the same month, reaching speeds of 200 km/h.

**NEW CARRIERS:** Providing a modern rail service is a priority for SNTF, which owns 11,500 wagons for passenger and cargo services. To enhance capacity, the company is set to purchase 40 diesel-electric locomotives for cargo transport and 20 passenger autorail cars for cross-country and regional lines. The 2019 modernisation plan also entails the acquisition of 20 rail cars for the expansion of suburban lines. Alleviating congestion and dependence on road freight transport is at the heart of SNTF’s strategy. To increase capacity over the next few years, SNTF will purchase 100 specialised wagons for cereals, 200 tanks for hydrocarbons, 100 cars for phosphate and...
The Port of Algiers registered a
48% year-on-year increase in the number of passengers in the first half of 2017

The existing railway network stretches for a total of 4,575 km

100 flat wagons for high cube containers. Aiming to reach a capacity of 20m tonnes of freight per year by 2020, the company is buying new locomotives with better traction from General Motors to ensure sufficient engine power going uphill. These acquisitions go hand-in-hand with SNTF’s strategy to have 12,500 km of operational rail lines by 2025.

One pillar of the strategy is attracting international investors. In July 2015 SNTF awarded French company Alstom a €200m contract to supply 98 diesel-electric train units. In 2016 the national rail company became the owner of a 10% stake in the Cital joint venture, comprising Alstom, holding 49%; Enterprise Métro d’Alger, with 10%; and Ferrovial of Spain, which reduced its share to 31% after it sold 10% to SNTF. Furthermore, SNTF has entered another partnership with General Electric to refurbish and modernise old locomotives with tourism in mind. Construction of new railways and upgrades to existing ones also present an opportunity to install repair shops and services along the routes. For example, Cital assembles manufactures and maintains regional and inter-city trains, contributing to the rail network’s expansion.

TRAVELLING MINDSET: Algerians are travelling more, both domestically and internationally: SNTF has recorded an additional 1.5m passengers annually since 2006, reaching 37m passengers. The majority of travel (60%) takes place in the north, around the cities of Algiers, Oran and Constantine. Tunisia is the main destination for Algerians, with over 1.5m tourists heading to the neighbouring country annually since 2015. Travel on the rail line linking Algiers to Tunis, with a connection in Annaba, takes just six hours, although the line has seen technical difficulties that have affected the service. “Reopening the rail connection between Algiers and Tunis is a strategic move for both countries. It will also facilitate the journey for tourists that visit the neighbouring country every summer,” Djamel Adjout, vice-CEO of SNTF, told OBG.

SNTF has acknowledged the need to increase both efficiency and speed. Thus, Customs and border formalities will soon be done on-board during the journey. Furthermore, as part of its modernisation plan, the government has commenced evaluation studies for the construction of a high-speed train link, which would connect Algeria with Tunisia and Morocco.

With regard to sea transport, Algeria registered a 20% year-on-year (y-o-y) increase in the number of ferry passengers arriving from the Port of Marseille in France during the first half of 2017. Travelling by boat is increasingly popular; the Port of Algiers registered over 27,000 passengers in the first half of 2017, up 48% y-o-y. Competition in the segment is expected to increase if fares, which are widely considered over-priced, are lowered. A ticket from Marseille to Algiers costs an average of €591, three times the price of the Algiers-Tunis route. The development of multi-modal regional connections also bodes well for Algeria’s tourism sector, boosting the economy and creating employment opportunities (see Tourism chapter).

DIGITALISATION: Quality service provision and modernisation are at the core of the nation’s transport strategy. South Korean technology company HB is developing a single-ticket initiative for Algiers’ urban transport system, unifying the multi-modal services under a single transport card. New e-payment methods are also transforming the way Algerians make their travel arrangements. According to SNTF, the launch of its online booking service has improved service provision and management; online payment will be the company’s next step.

OUTLOOK: There is considerable potential for further development of the transport sector if investment levels remain high, with north-south connections of particular interest. However, investments must be backed by political will to enhance infrastructure in a way that creates an attractive and competitive price-quality relationship. The higher budget allocation mandated by the 2018 Finance Law, the government’s diversification strategy and the ongoing industrial self-sufficiency policy should ensure the steady expansion of Algeria’s intermodal connections.
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In what ways has maritime shipping in the Mediterranean Sea evolved in recent years?
ARKAS: Global shipping activity is going through what is probably one of its worst crises ever. This is affecting main maritime routes such as Far East-Mediterranean, Trans-Pacific and Trans-Atlantic. It also has repercussions on other secondary trades or niche markets. Several famous and well-established shipping lines have disappeared, and we are seeing the market restructure itself. Due to the crisis, the Intra-Mediterranean market has become more attractive. The biggest shipping lines are more aggressive because this market is now more profitable, compared to the main routes, which have become a loss-making activity. This concentration has increased competition and forced sea-shipping companies to adapt their strategy and cost-management process.

How can infrastructure improvements enhance the performance of the maritime sector?
ARKAS: Algerian Customs are aware of the weaknesses of the infrastructure and a lot has been done since the election of President Abdelaziz Bouteflika. It is a national priority, and huge investments have been made in developing it. That being said, investments focused on sea transport infrastructure are still needed to enable carriers to be more efficient. Most Algerian ports are located in city centres and exist from pre-colonial periods. For this reason, the state has commissioned the construction of a new and modern terminal located at Hamdania, 100 km west of Algiers. An important port located outside big cities is clearly needed.

Beside this new terminal, existing ports have to adapt themselves to accommodate larger container vessels, which would enable shipping companies to take advantage of economies of scale. This can be done through the construction of linear quays, dredging operations and an investment in modern mobile harbour cranes, or even gantry cranes, to reduce the stay period at the port.

What are the specific challenges with regards to maritime transportation in Algeria?
ARKAS: Maritime transport in Algeria is a competitive market. The main global companies are well established and very competitive. Since the decrease of prices in the oil and gas sector, a reduction of import volumes is expected in Algeria. The best alternative to the Algerian economy would be a substitution of imports volumes with exports. Algeria is a resourceful country in terms of population, energy and access to the European market. After an economic transition period, the country has all the benefits to become a major exporting country. In terms of regulation, some major evolutions were implemented in December 2015. For example, the practice of slot exchange – the possibility for a shipping line to use space on another shipping line’s vessel – is now recognised and has contributed to the development of the sector.

What else could Algeria be doing to become a hub for landlocked African countries?
ARKAS: International transit to landlocked countries has been forbidden since 1982. However, if this regulation were to be amended, the practice could represent a very good potential to increase transit volumes to and from Algeria. The transit through Algerian ports could be an alternative to the Abidjan, Lomé and Cotonou hubs, serving countries like Mali and Niger, which can be directly reachable through existing road infrastructures. The National Company for Rail Transport could also play a role by connecting railways to ports and investing into new power locomotives to enhance the whole cargo-transport capacity of Algeria.
Regional outreach

Work is under way to secure trans-shipment business in the Mediterranean

Becoming a maritime hub on the Mediterranean Sea is a key priority for Algeria, as it competes with Southern Europe’s main ports – namely, Valencia and Algeciras in Spain, and Gioia Tauro in Italy – and especially with Morocco’s Tanger Med port. To do so, the government is allocating funds to construct a deepwater port to ensure sufficient capacity to accommodate large cargo ships, and to provide access to the main road and rail lines for further distribution inland.

NEW PORT: The construction of El Hamdania deepwater port, which will be located in the northern coastal town of Cherchell in the wilaya (province) of Tipasa, is a landmark for transformation. The $3.3bn endeavour, located 100 km west of Algiers, aspires to become a regional trading centre. In December 2016 the South Korean company Yuhill-Yooshin and Algeria’s Maritime Study Laboratory certified the feasibility of the project. The port will offer 23 docks capable of accommodating 25.7m tonnes of goods per year once it commences operations. By 2050 the government expects the port to reach annual cargo traffic of 35m tonnes.

The project is being developed under a joint venture between the Algerian Port Services Public Group, a consortium of public and private companies that holds 51%, alongside China State Construction and Engineering Corporation and China Harbour Engineering Company, which together have a 49% stake. The latter two investment groups secured ownership of nearly half the project when Algeria accepted a long-term financing loan from China. With a completion timeline of seven years, the port is expected to begin activity four years after building starts under the management of another Chinese firm, Shanghai Ports.

However, the project is advancing at a slow pace. While construction was due to commence in March 2017, Abdelghani Zalène, minister of transport and public works, asked for the finalisation of technical details in August so that the project could begin, local media reported. Although the project is still gathering the necessary financial and technical resources, Algeria secured a $900m loan from the African Development Bank in February 2017, which allowed the project to proceed. If work begins before the end of 2017, the first stage of the facility could be operational in 2021, with full completion expected in 2024.

The development of road and rail connections to the port would provide a holistic network for the efficient transport of cargo. The port is planned to connect to the East-West Highway by a 38-km stretch linking Cherchell to El Affroun. To manage the freight, the construction of a 400-ha trading logistics platform and four industrial areas across 2000 ha were being outlined as of July 2017. China’s state-owned shipping line, COSCO Shipping, has suggested that it could make El Hamdania its hub in the western Mediterranean. Seeking to attract trans-shipment business to serve West Africa, the completion of the Trans-Saharan Highway (see overview) will enable containers to reach many parts of landlocked Africa more quickly.

BUSINESS EXPANSION: The policy to reinforce port capacity also extends to all related operating infrastructure and services. For instance, ERENAV, the company for naval repairs under the Algerian Maritime Transport Group present at the ports of Oran, Arzew, Béjaïa and Algiers, provides maintenance to national and international vessels. With the expected increase in sea traffic, the growth potential for the entity is significant. The maritime strategy also includes an enlargement of the national fleet through the acquisition of additional cargo ships and the development of business know-how, detailed in an agreement reached with global shipping firm CMA CGM (see overview).

The slowdown of the economy as a result of lower hydrocarbons prices is notably shaping, and sometimes delaying, the plans. However, opening up to new commercial lines, growing its maritime fleet and providing intermodal transport connectivity is boosting Algeria’s capacity to compete as a regional trading centre.
Fostering connectivity

Improved mobility in major cities will be achieved through the expansion of services and infrastructure

The rapid rate at which urban areas in Algeria are developing has led to road congestion and growing transport demands. To tackle challenges constraining traffic flow in cities, the government has invested in urban transport solutions over the years. The country launched the region’s first metro line in Algiers in 2011, installed tramways and has a dense network of bus lines.

**METRO REACH:** The single-line, 13.5-km Algiers metro is in the midst of an enlargement programme. The initiative comprises a three-phase, 9.3-km extension of Line 1. The project is estimated to cost AD74bn (€613.8m), and it is being carried out by a consortium led by the Spanish engineering and construction group SENER.

The first segment, which added four stations, was completed in July 2015. It runs a length of 4 km from Hai El Badr to El Harrach. The second phase will link Hai El Badr to Ain Naadja with two stations and 3.6 km of track. The third, 1.7-km extension at the other end of the line will run from Tafourah Grande Poste to the city’s central Place des Martyrs. The two sections are expected to be operational by the end of 2017.

Another section of the metro line, linking El Harrach to Algiers’ Houari Boumediene Airport is expected in 2021 (see overview). State construction group Cosider will build the link, and 40% of the 9.5-km, nine-station segment had been laid as of July 2017.

The metro system in Oran will entail a 19.7-km line with 20 stations. Construction has been progressing slowly, with the AD138bn (€1.1bn) project now expected to be completed in 2020. Designed for a daily capacity of 32,000 passengers, the metro will connect with the tramway and bus systems.

**TRAM SYSTEMS:** Algeria’s tramway network is expanding in major cities. In July 2017 the AD28.2bn (€233.9m) tramway in Sidi Bel Abbès was inaugurated. The 14.3-km system is the fourth in the country after Algiers, Oran and Constantine. With a capacity of 302 passengers per journey, the line represents a production milestone of inputs made completely in Algeria. The project was delivered by joint venture consisting of Cital, France’s Alstom, Spain’s Ferrovial, the National Rail Transport Company and Enterprise Métro d’Alger (EMA).

Meanwhile, the Sétif tramway line is expected to commence operations in 2018. The expansion of the tramway line in Constantine, a AD34bn (€282m) undertaking, is expected by 2019, as well as further expansions of the Algiers tramway. Plans for tramways in Ouargla and Mostaganem, however, are on hold and awaiting a more favourable investment environment.

**BUS LINES:** The state-owned Algiers Urban and Suburban Transport Office is also developing a strategy to expand the capital’s public transport system. The city’s outward expansion has required the company to enlarge its bus fleet in stages. In July 2017 the entity announced the acquisition of 280 new buses requiring an investment of AD6bn (€49.8m).

**INTERNATIONAL INVESTMENT:** Public spending cutbacks have driven the government to seek public-private partnerships and international agreements to finance its transport investments. To overcome the delays in urban mobility projects, in April 2017 the Ministry of Transport and Public Works announced it would cooperate with the World Bank. Projects under review for investment by the bank include the extension of the Algiers metro, the construction of a metro in Oran and the establishment of a shuttle bus service from Tafourah in Algiers to the city’s international airport.

**TECHNOLOGY ON THE MOVE:** In addition to enhancing public transport links, Algeria is targeting a digital transformation. The EMA aims to modernise the metro service in line with technological innovation. Reaching an agreement with Banque Nationale d’Algérie, electronic payment at Algiers metro stations commenced in January 2017. Electronic payment has been extended to the city’s tramway and cable cars as well, and the system is set to be expanded to Sétif, Ouargla, Constantine and Sidi Bel Abbès. Creating a single universal ticket for all urban transport modes is also currently under way.
High potential

Wissam El Moukahal, CEO, Entreprise de Transport Algérienne par Câbles (ETAC), on the cable segment

What is the key to success for joint ventures between foreign companies and public entities?

EL MOUKAHAL: To create a sustainable and profitable joint venture between an Algerian public entity and a foreign firm, the joint venture needs to fulfill a need in the market. There should be a human dimension and a skills transfer from the foreign company to the Algerian counterpart. It should materialize through a training plan and a mixed management style, resulting in a newly created firm that promotes the exchange of best practices. Second, there is an economic dimension that should result in local job creation and an expansion of economic activity in the country. The state should also maintain its investments to help sustain the company’s growth, in exchange for the development of innovative and dedicated tools that answer local operational challenges. Lastly, there should be an industrial dimension that guarantees long-term sustainability of the activity, enabling the joint venture to adapt to a changing economic landscape.

How has cable transport evolved in the country?

EL MOUKAHAL: The Algerian authorities have for a long time integrated ropeway transport within their urban development plan. The first cable car was introduced in Algiers 1956, and this means of transport hasn’t stopped expanding since.

With the current construction of two new lines in Algiers and Tizi Ouzou, there will soon be a total of 12 cable car installations across the country. Algerian people consider cable cars a standard form of urban transportation, on a par with buses, trams and underground systems.

To what extent could Algeria become an international hub for cable transportation?

EL MOUKAHAL: Algeria has the largest number of ropeway transport installations in the world, offering an annual passenger capacity of 200m. The country will also soon own one of the world’s most modern training centres in this sector. It will train Algerian teams in key areas of cable transportation with the aid of specific evaluation tools, e-learning modules and the first 3D cable car simulator.

What export potential is there in the segment?

EL MOUKAHAL: There are a number of possibilities in relation to exportation in this sector in terms of product and expertise. The country’s authorities have set up an important investment programme for the creation of new urban cable lines. The roll out of this programme will complement the growth of the national economy. ETAC will set up a factory to assemble cable cars for the needs of the local market. We will also evaluate the export potential of the African continent, and offer courses to foreign workers within the training centre.

Algeria is undoubtedly an important country in terms of urban cable transport, and will proceed to play an even bigger role in this area in the future.
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Navigating logistics

New trade facilities and processes brought on-line with the aim of boosting competitiveness

Customs procedures in Algeria are often associated with high storage costs and bureaucratic constraints that affect distribution, leading to underperformance. Whereas the country possesses 11 commercial ports along its 1200-km coastline, most of them lack storage capacity, and face infrastructural and equipment deficiencies that make them unable to achieve a dynamic flow of freight distribution.

With 95% of Algeria’s trading activity operating through maritime channels, developing modern import-export facilities is of the utmost importance. To that end, a project to improve the performance of commercial activity and gain efficiency in international trade is part of the country’s 2015-19 development plan. In 2016 the government prioritised the need to establish centralised logistics platforms at the main ports – Algiers, Béjaïa, Djen Djen and Arzew – to enable effective handling practices.

**STORAGE CAPACITY:** The dry port in Rouiba, managed by state-owned Algerian Intermodal Logistics Centre, has been effectively reducing storage congestion at the Port of Algiers since the facility was inaugurated in May 2016. Boudjemaa Talai, then-minister of transport and public works, highlighted the project as a milestone in the national strategy to develop logistics infrastructure. Connected to the port by rail, the Rouiba dry port has capacity for 100,000 containers, which are managed under a transport-stock-acclimate rolling programme.

Once the Port of El Hamdania begins its operations – expected in 2021 – a large volume of commercial flow is expected to shift to the facility (see analysis). The maintenance of efficient services will be tasked to a 400-ha logistics facility accompanied by sophisticated machinery. The government is also planning to develop dry ports in the south as a way to supply these regions.

**STRATEGIC LOCATION:** The wilaya (province) of Constantine has a beneficial location, lying to the south of four of the country’s major ports: Annaba, Skikda, Béjaïa and Jijel. It benefits from the crossing of the East-West Highway and various rail connections, and its potential to become a logistics centre has been under study. Work to fulfil this vision was expected to commence in 2017 in form of a new logistics platform to be built in Ouled Rahmoune, in southern Constantine.

When it announced the large-scale project in March 2017, Logitrans, the state-controlled road transportation group, said the project will be developed in stages and spread over 50 ha, of which the facility will comprise 12 ha. The project will comprise space for cargo trailer parking, and refrigerated and dry storage complexes. The facility aims to be energy sustainable, and therefore photovoltaic solar panels will be installed. The completion of the platform will take several years. Nevertheless, Logitrans expects the first phase of the platform, which will primarily focus on accommodating transit goods, to be operational as early as 2020.

Three other logistic platforms are also under evaluation for the near term. Plans for Algiers, Oran and Sétif include the construction of facilities covering areas of 12,000 sq metres, 25,000 sq metres and 30,000 sq metres, respectively. The government has emphasised the importance of connecting the platforms through railway lines and with modern containers to ensure there are no delays in the delivery of agri-food products. Traceability and monitoring throughout the supply chain is also essential to meet health and safety standards.

**SHIPPING FORMALITIES:** Shipping costs in Algeria are approximately two-thirds higher than those in neighbouring Morocco. The higher charges have a notable impact on related logistic costs, inflating the overall value of transactions. The Customs inspection process at the Port of Algiers, however, has made progress in recent years. Carried out by both the Customs Office and the Ministry of Commerce, inspection used to be a long process. Now the two practices have been unified, bringing the processing time down to one week, reducing storage costs and facilitating speedier moves to market. Food products

In 2016 the government prioritised the need to establish centralised logistics platforms at the main ports of Algiers, Djen Djen and Arzew to enable effective handling practices.

A logistics centre in the province of Constantine will cover over 50 ha and comprise an area for cargo trailer parking, and refrigerated and dry storage complexes. The first phase is expected to be completed by mid-2020.
With 95% of trade activity operating through maritime channels, modern import-export facilities are vital. or any other goods that must undergo veterinary, sanitary or health inspections are dealt with as quickly as possible. However, the Port of Oran has yet to achieve such improvements. The process there can take up to 15 days, raising freight costs.

Despite the hurdles, some cargo firms feel that the level of bureaucracy at Algeria’s ports is manageable. Adlane Belabdelouahab, managing director of Arkas Algeria, told OBG, “Problems can occur, but firms that know the business well can usually get merchandise out of the ports in four or five days, provided no special permissions are required.” Facilitation of Customs clearance to avoid overcrowding at the terminals is the way forward; the aim is to conclude formalities in three or four days. For imports, the pressure is somewhat lower since the merchandise is already in the country.

However, for exporters, the clearance process is a pressing issue and performing complex bureaucratic processes can be challenging. Going through the customary administrative requirements and arriving on time to “catch the boat” results, in many cases, in ships leaving Algeria empty.

Rachid Ghezlaui, CEO of freight management company TRANSRAFA, told OBG the limitations of the current logistics performance at the Port of Algiers could be improved by investing in new processes. “Investing in a single logistics platform to gather the various Customs and administrative bureaus implies not only cost-effective management and competitive returns, but it also determines Algeria’s status in the commercial spotlight between regions,” he said.

OPEN FOR BUSINESS: According to a February 2017 article by Euromonitor International, the anticipated growth of the Algerian retail industry – forecast to increase in value by 34% between 2015 and 2021 – is another factor compelling the government to seek more robust logistics management. Major global brands such as Mango, Zara and Aldo already operate in the country, as does French supermarket chain Carrefour, which opened a hypermarket in Algiers in 2015. In addition, large shopping malls springing up in the country, such as the Oran Shopping Mall, are also boosting retail activity, and the need to receive and move products efficiently (see Retail chapter).

Within industry, the Algerian subsidiary of GEFCO Group, a European automotive logistics company, has reported strong results since it began operating in Algeria in 2014, reaching a turnover of €5m in its first year of operations. It benefits from direct trade routes with regions in which GEFCO already had operations.

Global logistics company DHL has also been diversifying. The firm, which began delivering to the market in 1994, has close to 3000 clients. In addition to its express service and a global forwarding service, the company offers a service called the couloir vert (green corridor) to select industrial companies enabling the delivery of urgent industrial inputs.

UPDATING SYSTEMS: The provision of suitable, up-to-date machinery is central to modernisation plans. According to officials from the public General Maritime Society, it takes around one week to unload vessels at the country’s ports – a process that would take 10 hours at other global harbours. Activity ceases on the weekends, and no overtime is performed. Under such circumstances, ports’ operational capacity is limited and development is hindered. Modernisation will ensure better management and help increase capacity to accommodate larger vessels, resulting in less traffic.

With regard to merchandise traceability, automatisation would help reduce informal market activity, and improve economic and sanitary transparency. The parallel market and the presence of fraudulent firms represent a threat to the import bill, as they often inflate figures for personal gain.

The implementation of a single logistics platform bringing together Customs agents and centralising administrative formalities will not only speed up the import process, but ensure more reliable information.
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ICT

Scheme under way to boost connectivity in remote areas
Draft bill set to open the market to private sector players
Educators look to expand access via online programmes
Rollout of 3G and 4G extends the reach of data services
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Making connections

Expansion of data and satellite services to boost connectivity

Technological advances over the past decade have played a fundamental role in transforming business practices and promoting a new digital culture in Algeria. As a result of this expansion, a range of new innovations and trends has developed, leading to the reshaping of the telecoms industry. Government efforts to boost levels of internet penetration and expand the use of communication technologies have improved market access and also reinforced the sector’s competitiveness. According to the Post and Telecommunications Regulatory Authority (Autorité de Régulation de la Poste et des Télécommunications, ARPT), the country had an internet penetration rate of 71.2% as of 2016, a marked improvement from 46.9% in 2015 and 25.6% in 2014. This places Algeria in third position in the Maghreb region, and among the leading countries in Africa, where the average internet penetration rate is 18%.

Ongoing government efforts aim to promote further diversification in the sector, and follow progress made in recent years through the unveiling of 3G and 4G services, which have boosted the reach of data packages across segments of Algeria’s society. Fixed-line and mobile internet operators recorded a combined turnover of AD444bn (€3.7bn) in 2016, according to the ARPT, a growth of 2.5% on 2015, with the expansion of 3G services and the implementation of 4G technologies credited as leading factors behind the uptick. By the end of 2016 there were 29.5m fixed-line and mobile internet users in the country, a 56.1% increase on year-end 2015 figures of 18.9m. The rapid rise in internet usage has been largely attributed to an overall shift towards digitalisation in Algeria’s business community, alongside local alignment with global digital trends.

SHIFTING TRENDS: The launch of 3G in 2013 was pivotal in transforming the sector. Figures from 2016 show mass migration from GSM to 3G usage, which was accompanied by a decline in the volume of voice calls. Following its launch in mid-2016, 4G services had a modest penetration rate of 3.5% by that year’s end. Both voice and internet use shifted from fixed to mobile, supported by the expanded rollout of 3G devices. Although mobile devices have risen in popularity, the country has seen a moderate rise in the use of fixed telephone lines. Fixed lines now reach 43.4% of the country and had 4.3m subscribers in 2016, some 4.2% more than the year before. Even so, the government’s effort to enlarge the telecommunications network and reach more remote areas appears more likely to be achieved through a larger mobile network rather than fixed lines. “One of the upcoming opportunities for ICT in Algeria will arise from operators improving signal coverage in rural areas and in the south,” Zhang Chao, general manager for Algeria at ZTE, a China-based telecoms company, told OBG. “Telecom equipment suppliers will work with operators in order to guarantee these network upgrades in these difficult regions.”

By the end of 2016 as much as 56.7% of mobile phone users were subscribed to either 3G or 4G services, representing the first time that mobile internet subscriptions had surpassed GSM usage. In the ARPT’s first quarterly report for 2017, it was estimated that 33.8m people primarily accessed the internet on a mobile device. In order to meet this demand, state-owned operator Algérie Télécom (AT) has invested AD40bn (€331.8m) in fibre-optic cabling production.

MOBILE OPERATORS: With a mobile penetration rate of 113.4% in 2016 – which signals some consumers have multiple contracts – Algeria has a mature mobile segment, where three operators compete for market share. The largest provider is Algérie Télécom Mobile (ATM), subsidiary of the state-owned AT. The company operates under the brand Mobilis and had 17.3m subscribers, or a 36.8% market share – at the end of 2016, representing a 4.2% rise on 2015. The company is set to be restructured, with Imane Houda Feraoun, the minister of post and ICT, announcing in April 2017 that ATM will be merged with other AT subsidiaries to form Groupe Télécom Algérie. According to Feraoun, the merge will...
ICT OVERVIEW

There are currently two underwater international cables with a total bandwidth capacity of 1040 Gbps connecting Algeria to the global network, though real consumption in the country takes place at 840 Gbps. The telecoms operators are Algérie Télécom, Mobile Optimum Télécom Algérie and Wataniya Télécom Algérie

ICT OVERVIEW

provide high-speed packet access and wireless connections. However, operators are faced with insufficient infrastructure, which hampers their ability to deliver the expected quality of service. Broadband adoption speeds of 4 Mbps are still well below the global average of 7.2 Mbps, reducing both download speeds and performance for users. According to a study released in mid-2017 by the UK-based firm Cable, Algeria ranked 161st out of 189 countries for internet speed.

TELECOMS LAW: The sector is awaiting the implementation of a new telecoms law, with the draft bill adopted by the Council of Ministers in December 2016. The draft law could be pivotal in increasing competitiveness in the sector, as it would open up the nationalised communications market to private companies, with operators outside of AT given access to Algeria’s telecoms exchange. “The fact that private actors do not benefit from the same market access conditions as public entities is a big issue for the ICT sector. It means there is not enough competition within the market, which ends up impacting the final customers,” Fadi Gouasmia, CEO of AnwarNet, a local ICT firm, told OBG.

If enacted the bill would oversee the opening of the market by creating an independent authority that would be responsible for the regulation of the electronic and postal markets on behalf of the state. Its primary role would be to ensure fair markets and healthy competition, but it would also be tasked with ensuring quality standards in telecoms infrastructure, settling disputes between operators over sharing infrastructure, connections and data, as well as protecting the rights of subscribers. Elements of the bill have proven controversial, however, with concerns over provisions that would allow the widespread monitoring of international phone calls. Negotiations over the draft law are expected to continue into late 2017, but the government is hopeful it will be implemented by the end of the year.

FISCAL PRESSURE: Capitalising on data services has proven challenging for telecoms operators for many save millions of dollars each year. Additionally, the new entity will be responsible for sector expansions in Africa. Optimum Télécom Algérie, operating under the name Djezzy, is the second-largest provider in the country. The company had led the market in terms of business volume and GSM subscribers until 2016, when it fell behind ATM. Djezzy has a subscriber base of 16.4m, accounting for 34.9% of the total market. The company lost ground in part when it faced delays in attaining a 3G licence in 2013. To rebuild its competitiveness the operator announced its “Djezzy Speed” service in August 2016, which resulted in the provision of 3G coverage across Algeria’s 48 wilayas (provinces) by that year’s end. The ability to roll out the service so quickly was helped by the massive deployment of antennae by Nokia, with the rate of expansion reaching a peak of 130 sites per week throughout the operation. Djezzy’s management also included 4G-compatible technology within the antennae, allowing the company to launch its 4G connection across 13 wilayas in November 2016.

Wataniya Télécom Algérie is the third-largest company in the mobile market with 13.3m subscribers, or a 28.3% share. Owned by Kuwaiti and Qatari companies, Wataniya entered the local market in 2004 under the brand name Ooredoo. The company was the first in the country to launch 4G services, in September 2016, which led to a spike in activity. Ooredoo announced its subscribers surpassed 14m in the first half of 2017. This strong performance has enabled the company to further invest in the modernisation of network technology.

CONNECTION SPEED: There are currently two international submarine cables with bandwidth of 1040 Gbps connecting Algeria to the global network; however, real consumption is 840 Gbps. The deployment of 3G and 4G services has shifted the market approach towards enhancing the customer experience, with operators focusing on raising average revenue per user by promoting all-inclusive contract plans. These packages include a range of value-added services that
penetration rate in households from 43.4% in 2017 to 81% upon completion. By end-2017 AT aimed to have deployed over 500,000 fibre-to-the-home lines with a 100-Mbps capacity, and to modernise existing lines. The operator has also set out to provide connection speeds of 1 Gbps to companies in industrial areas and developing business zones. Algeria had 2.9m fixed-line internet subscribers in 2016, according to the ARPT, which was down from the 3.3m recorded at end-2015.

**UNIVERSAL TELECOMS SERVICE:** A key component of the government’s telecoms agenda is the Universal Telecommunications Service announced in 2016, which seeks to close regional disparities in connectivity. Salim Tamani, head of media and public relations at Djezzy, told OBG, “The Universal Telecommunications Service aims to use 3% of the yearly profits of the three operators to supply both wireless and fixed-line telecoms connections to the regions experiencing difficulties accessing these services.” In January 2016 the ARPT announced that AT, ATM and Optimum Télécom Algérie were successful tenderers. This programme will upgrade services in 97 municipalities in 28 wilayas across southern Algeria, the Hauts Plateaux and border regions, collectively providing service to an additional 1.3m people.

**INFRASTRUCTURE INVESTMENT:** Access to the international internet network is currently provided by two submarine cables: ALPAL-2, running between Algiers and Palma de Mallorca in Spain, holding a bandwidth capacity of 80 Gbps; and SEA-ME-WE 4, carrying around

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The Universal Telecommunications Service aims to provide

1.3m people with internet
In February 2017 the government launched a tender to sell hundreds of kilometres of fibre-optic cables to Niger, Mali and Chad as part of an African Development Bank plan to provide the Trans-Saharan region with fibre-optic connections extending from Algeria to Nigeria.

As part of its fibre-optic-rollout programme, AT signed a deal with the Chinese equipment manufacturer Huawei in January 2017. This involves plans to install 1m high-speed internet connections across Algeria using fibre-to-the-home technology, providing a much-needed upgrade to internet speeds. The contract garnered a lot of attention from local press due to its high cost – at $90m for equipment and AD27bn (€2.5bn) for installation – and also because of its unusual tender process. The deal was granted through a private agreement rather than a standard call for bid, which triggered complaints among competitor technology providers, such as China’s ZTE and Sweden’s Ericsson, which had both been in negotiations with AT. However, this agreement is only the first of several unfolding programmes that are scheduled for 2018. For instance, a new 560-km submarine cable linking the city of Oran to Valencia in Spain is also expected to launch that year.

In addition, there is a non-operative cable owned by Djezzy that once linked Algeria to Europe, but has been blocked since 2009. Despite Algeria’s National Investment Fund owning 51% of the cable, the €25.3m investment remains underutilised, even though local press have reported that the cable could be operational within a week if the blockade were lifted.

EQUIPMENT SUPPLY: There are various international equipment suppliers active in Algeria, including Ericsson, which owns 35% of Société Industrielle des Télécommunications, an ICT innovation-focused joint venture in which the state has the majority of shares. ZTE is also well represented and has agreements with the three main telecoms operators. In October 2017 ZTE signed a partnership with the National Federation of Young Entrepreneurs for the FTTX project, which will see the installation of high-speed internet through optic fibre. The programme aims to train small local companies in ICT skills, enabling them to take part in the national modernisation plan for internet connectivity. Finnish firm Nokia is another major supplier, which collaborates with network provider Ooredoo, among others. The two companies reached a connection speed of 1 Tbps during a test run in December 2016 between the cities of Algiers and Ain Defla.

SATELLITE COMMUNICATION: Algeria’s first telecoms satellite Alcomsat-1 – which will secure connections and prevent delays in the event of fibre-optic service disruptions – is expected be operational by end-2017. Alcomsat-1 will improve the capacity of fixed-satellite systems and mobile satellite services, while also providing a boost to local voice and data services. In May 2017 Feraoun confirmed that Algeria had reached agreements to supply internet access to Mali and Niger, increasing access in both countries by up to 90%, while negotiations with Mauritania were ongoing. Alcomsat-1 represents a long-term, cost effective solution.

INTERNATIONAL MARKETS: In February 2017 Feraoun announced the launch of a tender to sell hundreds of kilometres of fibre-optic cables to Niger, Mali and Chad. This development forms part of an African Development Bank plan to provide the Trans-Saharan region with fibre-optic connections extending from Algeria to Nigeria, via Niger, Mali and Chad. The African Development Bank will finance the project to the tune of €43.9m. Initially, deployment of the plan will be administrated through the various AT subsidiaries, but the minister has said private companies are also invited to invest.

As part of efforts to raise Algeria’s presence in Africa, the ARPT announced in July 2017 a telecoms cooperation agreement with Mauritania that will see Algerian operators provide advice and assistance to Mauritanian counterparts regarding the implementation of its 4G network, a knowledge-transfer connection that could lead to new commercial partnerships down the line.

OUTLOOK: While still under consideration, the approval of the proposed telecoms law could help boost investment and new projects in the sector. It is hoped that rising competition will improve the performance of market operators, raising prospects for Algerian companies to invest abroad, while expansions of the fibre-optic networks and international submarine cables will solidify the country’s internet connections, in turn opening possibilities for innovation, start-ups and partnerships. Overall, long-term government plans to embrace digitalisation and diversify the economy are well under way.

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**Mobile ARPU, 2005-15 (AD per month)**

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Source: ARPT

www.oxfordbusinessgroup.com/country/algeria
ICT INTERVIEW

Jumping on the bandwagon

Riad Hartani, Strategic Technology Adviser, Algiers Smart City project, on joining the ICT revolution

How is the Algiers Smart City project a catalyst for the development of innovative firms?

HARTANI: The Algiers Smart City project shall be seen as a means and not an end in itself. Its primary goal is to fast track the development of a technology-based ecosystem, and for the city and its citizens to take advantage of that. In other words, it should be a catalyst for bringing together various players in the ecosystem. It aims to reinforce synergy between the various stakeholders — from actors in technology and business, to those involved with legal and policy decisions — and progressively craft a win-win situation for all the entities along the value chain. The project allows for, among other things, the emergence of a demand-driven start-up ecosystem, the linking of local players to the global tech landscape, rapid transfer of value from research and development to industrial applications, re-enforcement of the legal and regulatory frameworks, and improved dialogue between academia and industry.

What strategies does the ICT sector need to put in place to avoid technological dependency?

HARTANI: In the world of ICT, it is necessary to keep a significant level of experience to ensure technological sovereignty. If we fail to keep relative control over key segments, we will be obliged to follow a path of technological dependency. When we analyse the curve of technological evolution, we realise that it reaches an inflection point once every two or three decades, representing a window of opportunity to take the lead in a few specific segments. The emergence of leapfrog technologies, especially those centred around intelligent data platforms, alternative wireless internet innovations, blockchain information models, cloud-based service delivery mechanisms, the internet of things, internet scale content delivery platforms and open-source software deployment business models, provide a unique chance for Algeria. To lessen our technological dependence, we must take appropriate measures and build a roadmap for the emergence of a progressively sustained domestic technology ecosystem.

How will Algeria combat its relative technological delay and enhance its competitiveness?

HARTANI: We live in unique times. Much of today’s technological development is concentrated in the hands of a few technology leaders, which is a direct consequence of the “winner take all” theory at the core of internet business models. One strategy that is characteristic of these leading corporations is the deployment of leapfrog technologies to strengthen their position of domination over incumbent players in adjacent industries. Leapfrog technologies accelerate the obsolescence of legacy technologies, as they can skip over inefficient technological stages and speed up disruptions in competition among businesses. These are primarily in the realm of ICT, but also affect other industries, such as energy, transport, finance and education.

What changes has the ICT sector seen in recent years, and what is the outlook for the future?

HARTANI: The ICT sector is at a defining crossroads. While significant efforts have gone into evolving it over the last few years, greater efforts are required to continue in that trajectory. The foundations for successful development in the ICT sector have been laid, and the short-term strategic decisions that need to be taken will either build upon that foundation or weaken it. The dynamic of the ICT sector is no longer independent but will in fact become the most critical variable that defines the maturity levels of other socio-economic sectors. This will affect the country’s overall development as well as see ICT maturity prioritised as the benchmark for measuring global competitiveness.
Digital adaptations

ICT development to enhance performance in multiple sectors

Advances in the digital environment have been key to Algeria's recent rise in global economic and development indices. The country was named the "most dynamic" Arab market in the ICT Development Index 2016, released by the UN's International Telecommunications Union, rising nine places to 103rd out of 175 countries. Algeria has prioritised IT and ICT enhancement as a cornerstone of the national plan to become a regional technological leader. Media is also playing a part in raising awareness of the importance of the expanding digital segment, supported by a growing number of younger, tech-savvy Algerians.

INTERNET OF THINGS: The improvement of the digital landscape is expected to have a significant impact on existing uses of technology. "Following global trends, Algeria will most likely move towards the internet of things," Ali Azzouz, director-general of local internet service provider Icosnet, told OBG. Proponents of the internet of things say such an approach will lead to the dematerialisation of services, subsequently reducing material expenditure and providing cost-effective budgetary management while boosting capacity for the private sphere and business sector.

Cloud computing has become a major feature for business operations in recent times, while the growing costs associated with hosting in Europe is moving investors to search for alternative, less expensive markets. Given its bandwidth capacity and connection speeds provided by submarine cables, Algeria has the potential to be an attractive destination for international businesses. The development of the digital economy also coincides with upgrades to the country's infrastructure.

Deployment of improved fibre-optic services will boost the development of local apps, along with other digital services such as maps and GPS devices.

TOOLS OF CONNECTION: Looking beyond GPS and intranet mailing, businesses are moving increasingly towards the interconnection of activities through the use of centralised services. In sectors such as agriculture, health and transport this trend is supporting further economic diversification, with smart irrigation services and the deployment of optimising sensors among the examples where interconnected services have assisted businesses. With the fall in oil prices leading to limitations on the imports entering the country, a number of local firms have begun to develop, leading to the creation of new apps and alternative business solutions. Digital stakeholders have called for financial incentives to be introduced and industry regulations to be enforced to allow start-ups and new entrepreneurs to gain market access.

RESEARCH VISIBILITY: Algeria's ability to showcase its growing tech capacity on an international level is improving thanks to the development of its education institutions, with the country hosting research agencies that are gaining worldwide recognition. The Research Centre for Scientific and Technical Information was ranked 10th among Arab countries in Webometrics' 2017 research centre rankings, while the Centre for the Development of Advanced Technologies – which acts as an incubator, guiding entrepreneurs and start-ups from developing technological ideas to the materialisation of products or services – was 22nd.

IT is also being put to use in the field of higher education field to expand access to tertiary education and build the skills base the country needs as it diversifies into a knowledge-based economy. At the end of 2016 the Ministry of Higher Education and Scientific Research launched an e-masters degree pilot programme at five universities. Each institution will offer a specialised course responding to local labour market needs. Reinforcing the government's plans to enhance e-government services, Constantine University 1 will provide a local administration course to ensure a ready workforce to develop such systems and support public access to them. Investing in such facilities and technologies in the near to medium term will be key to the country developing an innovative, modern economy.
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The right environment

Technoparks, incubators and smart cities provide the sector with a chance to shape the future

A major transformation of Algeria’s IT landscape has taken place following the arrival of 3G and 4G technologies, with the country’s internet penetration rate jumping rapidly from 25.6% in 2014 to 71.2% by the end of 2016. In contrast to cuts in budgetary spending, the increased prevalence of integrated digital operations has helped reduce operational costs and improve efficiency for many businesses. The government’s plan to reduce economic dependence on hydrocarbons, along with the application of newly implemented technologies, provides an opportunity for small and medium-sized enterprises (SMEs) in tech industries to capitalise on national diversification strategies. Pursuing such an approach may be key to IT ventures accessing public funds, with start-ups not identified as an area earmarked for strategic governmental investment.

CATALYSTS OF INNOVATION: Algeria’s roadmap for improving its IT landscape involves the establishment of a series of technoparks that are designed to act as interconnected IT clusters. One of these is the Sidi Abdellah Technopark, which was launched in 2004. Located just 30 km from Algiers, it provides an environment for innovative tech companies to develop and expand their businesses. With a heavy emphasis on the development and promotion of apps and hardware, the park has as a facility for entrepreneurs and a liaison centre to boost networking possibilities. Managed by the National Agency for the Promotion and Development of Technoparks (Agence Nationale de Promotion et de Développement des Parcs Technologiques, ANPT), the Sidi Abdellah project has helped foster digital development through strategies that provide start-ups with platforms, expertise and support to expand their product offerings.

The park offers newcomers with the opportunity to collaborate with a network of local and international companies, including Ericsson, Huawei and IBM, while the facility also boasts high-quality technological infrastructure such as 4G connections and a 9800-sq-metre incubation facility. While the park’s location has been a discouraging factor for some companies, the establishment of bus services connecting Sidi Abdellah to certain parts of Algiers has improved connectivity.

STRATEGIC ASSOCIATION: Offering further assistance to the ICT sector is the P3A programme, a strategy aimed at strengthening ties between Algeria and the EU implemented under an EU Association Agreement. With the objective of helping diversify Algeria’s economy, the €40m programme, launched in 2009, allocates funding and support for ICT development and the reinforcement of telecoms infrastructure, further enhancing the competitiveness of SMEs in the sector. In addition, the Oran Technopark is expected be operational by 2021. Once completed, the site will have a start-up incubator, SME office space and a hotel to allow for the hosting of corporate events. The cities of Constantine, Sétif and Annaba are also being assessed as possible locations for similar projects in the future.

E-COMMERCE: The rapid expansion of 3G and 4G services in 2016 and 2017 has had a significant impact on electronic platforms. Following the launch of e-payment systems in October 2016, the rate of online activity has grown rapidly. Government officials said that 5000 e-payment transactions had been undertaken by December 2016, with the figure expected to surpass 10,000 by the end of 2017. The development has allowed bills for utilities, telecoms, insurance and other administrative issues to be paid electronically.

To ensure the transparency of online payments and the implementation of consumer protection measures, the government has been in the process of drafting a bill to regulate the e-payment sector. This is expected to be finalised and approved by the end of 2017. “The penetration of 3G has redesigned communications dynamics, resulting in a non-stop flow of data that needs to be democratised in order to protect the consumer, monetise services and regulate the market,” Salim Tamani, head of media and public relations at
As of 2017, 20 companies provided e-payment services in Algeria. While e-payment services are growing in popularity, further development is needed to bridge the gap with world leaders in the segment. The expansion will be largely dependent on the structure of the developing regulatory framework. While 11 banks and nine other companies provided the initial offering of e-payment services in Algeria, the network is expected to grow in 2018 through the establishment of an interbank company responsible for expanding the e-payment network through the installation of electronic payment terminals. As part of a further service expansion, Mouatassem Boudiaf, the former deputy minister of digital economy and financial system modernisation, announced that e-payment via mobile phones would be available in 2018.

START-UP ECOSYSTEM: The recent burst in entrepreneurial initiative in the ICT sector comes amid government budget cuts and limited funding availability. High rents, a limited number of co-working spaces, investment risks and difficulties in monetising development represent some of the challenges facing entrepreneurs. Algeria’s delay in adopting online payment systems has also affected its start-ups, deterring potential partners and advertisers from investing. The Wilaya (province) of Algiers has played a significant role in supporting start-ups, however, with the Sylabs agency – an accelerator for start-ups, developers and creative businesses – working to foster cooperation and collaboration between Algerian entrepreneurs.

SMART CITIES: The capital, Algiers, has been at the centre of efforts to design more modern, efficient and sustainable cities to adapt to future conditions, with the “Smart City Algiers” initiative looking to embrace the benefits of ICT to improve the quality of life of residents in the city. Planning for the project runs until the end of 2017, with implementation for the action plan to begin in early 2018. A call for tenders was placed in mid-2017, with start-ups, universities, consultants and other businesses encouraged to submit proposals that could contribute to the Smart City project.

The initiative has drawn the attention of US company Xerox, which is collaborating with two internet providers in two separate projects. The first consists of a plan to install cable television connections throughout the city, subsequently reducing the pollution associated with the production of satellite dish antennae. This would allow operators to use fibre-optic cables to provide cable television services through the installation of a single device for the whole building. However, the slowdown in the economy has halted the project.

The second project concerns the provision of an urban Wi-Fi connection throughout the city to improve data flow and connectivity in the capital. The plan has faced challenges, however, with budgetary contractions, bureaucratic licensing issues, and the vastness and complexity of Algiers’ urban landscape representing challenges for the project’s implementation.

ICT SOLUTIONS: Algiers has experienced major urban mobility improvements (see Transport chapter) and has upgraded its energy performance milestones in recent times. Although the country still has much more to do to reduce rates of pollution and meet sustainability targets, ICT developments have begun to offer solutions for issues such as waste management and resources optimisation. These include plans to establish a single-ticket system for the city’s transport system.

Efforts aimed at optimising the use of materials and space are also under way. In 2016 local urban furniture company AD Display began installing digital bus shelters in Algiers’ city centre, complete with LCD touch screens, Wi-Fi connections and USB ports to increase connectivity throughout the city. Along with plans to expand the installation of these smart designs to other cities, AD Display is working to integrate a GPS system into Algiers’ bus network, while other projects include the development of smart lighting initiatives in major cities.

REACHING SPACE: September 2016 marked a key expansion in Algeria’s National Space Programme following the launch of three new satellites. Alsat-1B, Alsat-2B and Alsat-1N were successfully deployed into space on September 26, 2016, providing Algeria with a boost in earth observation, meteorology and communications. Following the launch of Alsat-1 in 2002, Alsat-1B is the second medium-resolution observation satellite to be deployed by the country, with its multi-spectral camera and panchromatic plates providing images that help monitor territorial landscapes and natural disasters. The satellite operates as part of an international cooperation scheme with China, Nigeria, Turkey and the UK. Similar to Alsat-1B, Alsat-2B is an observation satellite capable of supplying high-resolution images, while Alsat-1N aims to develop greater information exchange between Algerian and UK space programmes. In a further development, the telecommunications satellite Alcomsat-1 is expected to be launched by 2018, according to the Algerian Space Agency.

DATA STORAGE: Another area that has been identified as having significant growth potential is that of data storage, with efforts under way to establish third-party data centres across the country. “The ever-growing demand of data storage and the need for high-priced fibre-optic cables to support the systems is creating substantial difficulties for foreign companies,” Abdelhakim Bensaoula, general manager of the ANPT, told...
Efforts to curb internet fraud and online crime helped Algeria rise 36 places in the International Telecommunications Union’s Global Security Index 2017, where it ranked 67th out of 164 countries.

**IT SKILLS:** The digitalisation of the economy has led to a shift in skills training and education to suit the employment demands of the emerging high-tech market. In the past digital education has largely been provided to meet the needs of ICT companies in the sector; however, fresh efforts are aimed at further developing the IT skills of a wider proportion of Algerians. An example of this was the March 2017 launch of a digital economy master’s degree at the Higher Institute of Management and Design, in collaboration with the Ministry of Finance. Meanwhile, in 2015 the Algerian Employers’ Association (Forum des Chefs d’Entreprises, FCE) launched the Jil’FCE programme, providing business leaders under the age of 40 with a range of training and networking opportunities. Further vocational training opportunities are set to be established in late 2017, offering courses designed to support development in the digital sector.

**FORECAST:** The expansion of digital apps in Algeria comes amid efforts to diversify the country’s economy away from a reliance of hydrocarbons and is expected to enhance this objective. The digital empowerment of an app market focused on solutions for sectors such as agriculture, health and banking is among the tools Algeria can use to reduce costs and improve efficiency for various businesses and government departments.

OGB. “There is a major opportunity to outsource storage in Algeria given the country’s outreach capacity. The steady development of data-storage accommodation represents a priority in the country’s strategy towards boosting the digital economy,” he added.

However, the creation of these data centres is thought to be dependent on the upcoming telecoms sector law, implementation of which aims to reform the regulatory environment by allowing private companies into the nationalised communications market.

**CYBERSECURITY:** The growing volume of Algeria’s data traffic and the risk of possible cyberattacks have led the government to prioritise the development of cybersecurity protections, with efforts under way to implement a series of legal measures and ratify international conventions and protocols. In that regard, the People’s National Army organised its first seminar dedicated to cybersecurity in May 2017, where both military and civilian experts in the field debated the topic, and also provided lectures and practical workshops.

The Centre for the Prevention and Fight Against Computer Crime and Cybercrime, a division of the National Police Force, is the authority tasked with tackling cybercrime and illegal online activity. The centre places significant focus on actions such as illegal money laundering, human trafficking and online piracy. In addition, the government established an electronic communications taskforce in 2015 to monitor, track and register possible online offences. These efforts in fighting internet fraud and online crime were major factors behind Algeria rising 36 places in the International Telecommunications Union’s Global Security Index 2017, where it ranked 67th out of 164 countries.

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Tourism

Spa, desert and ecotourism show strong potential
Overseas visitor numbers post renewed growth
Banks working to increase financing in the sector
Hotel industry expansion to boost job creation
Major international players entering the market
Located a short distance from Europe and with a large and comparatively wealthy population of its own, Algeria is primed to make use of its significant tourism potential. Prospective attractions include 1000 km of largely undeveloped coastline, as well as vast deserts, numerous mountain ranges and countless ancient historical sites. Despite this, tourism as an industry remains underdeveloped as the sector has faced several major obstacles recently, including past conflict, a lack of infrastructure – particularly in regards to the number of hotel rooms in the country – and a cumbersome visa regime for foreign visitors.

However, authorities are stepping up efforts to expand tourism as part of wider economic diversification plans, and foreign hotel operators have become increasingly active in recent years. While the mass market package tourism prevalent in many other Mediterranean destinations is not on the cards, or even desired by the authorities, foreign business tourism and niche areas such as spa, desert and ecotourism have strong potential for growth.

**ECONOMIC CONTRIBUTION:** The World Travel & Tourism Council (WTTC) put the contribution of the Algerian travel and tourism sector to GDP at AD599.7bn (£5bn) in 2016, which is equivalent to 3.6% of total GDP. This compared to figures of 8.1% and 6.6% for the country’s Maghreb peers Morocco and Tunisia, respectively, both of which have well-developed markets for foreign tourism.

When including indirect contributions, the figure rises to AD1.2trn (£10bn), or 7.4% of Algeria’s total GDP for the year. The sector directly accounted for 346,500 jobs, according to the WTTC, equivalent to 3.1% of national employment, growing to 731,500 positions (6.5% of employment) when indirect contributions to employment are also taken into account.

The country’s National Statistics Office (Office Nationale des Statistiques, ONS) put the value of the hotel, café and restaurant sector’s GDP at AD240.4bn (£2bn) in 2016, equivalent to 1.4% of GDP. In constant prices, sector GDP grew by 1.3% over the course of the year, the same rate as in 2015. Sector growth stood at 3.1% and 0.4% in the first and second quarters of 2017, respectively.

International tourism plays a relatively small role in the sector. The World Bank (citing World Tourism Organisation figures) put the value of international tourism receipts at $357m in 2015 (latest available data), or about 0.2% of GDP for that year. This compared to receipts of $7.8bn for Morocco and $1.9bn for Tunisia. Receipts increased rapidly in the years following the end of the country’s civil war, from $112m in 2003 to $477m just two years later. However, they declined in subsequent years, falling from $473m in 2008 to $295m in 2012, before returning to moderate growth more recently.

**INTERNATIONAL ARRIVALS:** Arrivals from abroad rose sharply in the first decade of the century, from 866,000 in 2000 to 2.73m in 2013. However the following two years saw a significant fall in visitor numbers, to 2.3m in 2014 and 1.71m in 2015. The reason for the drop is unclear but is likely partly due to the fall in the international oil price and the consequent economic downturn, which saw businesses sending personnel to Algeria cut their travel budgets. Lower arrivals in 2015 were driven by a large decline in the number of Algerians living abroad visiting the country, from 1.36m in 2014 to 626,873 in 2015.

However, arrival numbers recovered in 2016, to 2.04m, according to ONS figures. This included 1.32m foreign nationals – up from 1.08m in 2015 – and 716,732 Algerians resident abroad, up 14% on 2015. The largest source market in 2016 was Tunisia, with visitor arrivals of 813,724. This was up 41% on the 2015 figure which was itself up 21% on 2014. Next in line was France accounting for 169,036 arrivals, a rise of 13% of 2015. Morocco came a distant third on 55,409 tourists, up 4% from the previous year.
ACCOMMODATION: Algeria was home to 1231 accommodation establishments as of 2016, with a combined 107,420 beds, according to ONS figures. The figures were up from 1195 establishments and 102,244 beds the previous year. Of the 1231 establishments in 2016, 440 were hotels, with a total of 40,842 beds. By star rating, one-star establishments accounted for the largest number of hotel beds, with 27.7% of the total. Another 55,380 beds were in 565 accommodation establishments, awaiting categorisation by the Ministry of National Planning, Tourism and Handicrafts (Ministère de l’Aménagement du Territoire, du Tourisme et de l’Artisanat, MATTA), while 196 “other hotel-like establishments” provided 9381 beds. The country has around 0.1 hotel rooms per 100 of the population, the 119th lowest level out of the 136 countries covered by the World Economic Forum’s 2017 “Travel and Tourism Competitiveness Report”.

The ONS put the number of nights spent in tourist accommodation establishments at 7.28m in 2016, up from 7.15m a year earlier and 6.33m in 2011, with the number rising steadily every year over the intervening period. Of the 2016 figure, 992,611, or 13.6% of the total, were accounted for by non-residents, and the remaining 6.28m by Algerian nationals. With limited capacity being one of the constraints to the sector’s development, the authorities are seeking to dramatically expand the number of beds available to tourists to 300,000 by 2030 – a near tripling in capacity in not much more than a decade. It will include an increase in the number of beds available in Algiers, the capital, from around 19,000 to 50,000.

Progress is already being made towards these goals: in December 2016 the then-minister of tourism, Abdelouahab Nouri, said that 550 new accommodation projects were under way across the country, and that another 1050 had received approval from the ministry and would be launched soon. Private investment in the upper end of the market is also taking off with numerous deals to launch hotels managed by international brand-name operators having been signed in recent months and years, which should also lead to job creation (see analysis).

In September 2017 MATTA announced that 197 hotels were due to open in the next three years in Algiers alone, representing 39,000 new beds. Major projects under way in the city include the Trust tourism complex being built in Bab Ezzouar, close to its airport, which is anticipated to host four hotels with more than 2000 beds between them, as well as a shopping centre. The project has faced delays, but local media reported in summer 2017 that it was close to reaching completion and would likely be inaugurated before the end of the year.

STATE-OWNED PLAYER: The largest player in the sector is the Groupe Hotellerie, Tourisme et Thermalisme (Groupe HTT), which is owned by the Algerian government and operates some 66 hotels across the country. The firm’s portfolio features mid-range hotels and resorts and spa centres, with a combined bed capacity of 30,000, or 28% of total tourism accommodation capacity. The authorities are currently in the midst of a AD70bn (€580.6m) project to renovate facilities managed by the group. Groupe HTT plans to expand this to 32,500 beds in 2018.

Lazhar Bouanafaa, the CEO of Groupe HTT, told OBG that the firm’s priority for 2017 and 2018 was to upgrade equipment and services across its facilities under the renovation plan. The firm is also investing in the construction of new facilities under the plan, including hotels being built at the Sidi Fredj and Chellala spa complexes, a new thalassotherapy centre at the Les Andalouses tourism complex in the western city of Oran, a conference centre at the group’s tourism complex in Zeralda and several holiday villages across the country.

The state’s heavy involvement in the sector has attracted criticism from private players. For example, speaking in April 2017, Djillali Mehri, CEO of sector investor company Groupe d’Investisseurs du Maghreb et du Moyen-Orient, which has partnered with French hotel operator Accor in recent years, suggested that government involvement disadvantages private operators and called for the state to withdraw from the industry.

Local observers have also argued that the government’s repeated moves to bail out failing state-owned facilities underpin some of the key challenges as regards the development of the sector and the lack of hotel infrastructure.

FINANCING: Another challenge for the tourism sector that has held back development has been a shortage in the availability of bank financing for companies operating in the industry. According to media reports, the sector accounts for just 1% of banking lending, well below its contribution to GDP.

However, banks now appear to be seeking out new projects in the industry following an agreement between MATTA and private lenders in 2014...
Algeria rank 118th of out 136 countries worldwide in the World Economic Forum’s 2017 “Travel and Tourism Competitiveness Report”, with a score of 3.1 out of seven.

SECURITY ISSUES: Concerns regarding security have also held back the development of the sector. In the 1990s the country suffered from a civil war known locally as the décennie noire, or dark decade. Marked by a period of instability and unrest, the décennie noire saw the number of tourists visiting the country effectively cut in half.

Though relative stability ensued in the years that followed the end of the war, a couple of incidents have dampened the country’s image as a tourist destination in recent years, notably the attack on the Tiguentourine gas plant in south-east Algeria.

Nonetheless, general safety conditions in the country have improved significantly due to enhanced security measures nationwide. Circulating both within and between the main coastal cities – as well as visiting southern desert towns such as Timimoun, Taghit or Tamanrasset – has not historically represented known risks, making these attractive travel destinations in the country.

RANKING: The extent of obstacles to sector development is underscored by Algeria’s ranking in the World Economic Forum’s 2017 “Travel and Tourism Competitiveness Report”, in which it placed 118th of out 136 countries worldwide, on a score of 3.1 out of seven. The country scored highly in the report’s price competitiveness pillar, ranking fourth worldwide, and moderately in the cultural resources and business travel pillar (53rd place), due in large part to its World Heritage sites and strong cultural heritage.

However, it placed in the bottom half of the rankings in all other categories. Its performance was lowered by a ranking of 134th place in the international openness pillar, on a score of 1.5, due to restrictive visa requirements, a lack of open bilateral air service agreements and several regional trade agreements in force. It also placed 131st in the prioritisation of travel and tourism pillar, due to factors including low government expenditure on the sector as a share of overall public spending and a low score in the tourist service infrastructure category.

STRONG POTENTIAL: While the sector has faced numerous challenges and its proportional contribution to the economy is small by regional standards, these indicate ample room for growth.

“Algeria has very strong potential as a tourism market,” Malek Baiche, Maghreb development director for the hotel group Carlson Rezidor, told OBG. “It has innumerable tourist attractions, and desert, seaside and spa tourism all have room to grow.” He added that desert tourism held particular potential to revitalise the sector, especially after regional conflicts subside. “What is needed for this potential to be realised is a real political will to develop the sector and to place more professional organisation behind it,” he said. Baiche further argued that efforts to establish more entertainment activities, such as festivals and other cultural events, around which new tourism circuits could be developed, would be particularly helpful for the sector.

There are indications that such political will is becoming stronger in the country. “Until recently the sector had not been the authorities’ priority, given factors such as instability in the 1990s and the subsequent need to rebuild basic infrastructure and develop key sectors such as agriculture and industry,” Alexandre Kateb, CEO of the Competence Finance consultancy group and previously a member of a task force advising then prime minister Abdelmalek Sellal, told OBG. "Following the drop in the oil price, tourism has been increasingly seen as a promising source of revenues and employment, and is becoming a priority for the authorities." He added that there was now political will to encourage private investment in the sector and renovate and improve both infrastructure – such as hotels and resorts – and tourist sites, such as monuments and ancient ruins.

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Visitor arrivals*, 2011-16 (m)

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Source: World Bank, ONS

*including Algerians living abroad
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“The model is unlikely to be the same as in other countries in the region that focus on mass tourism for Europeans, but will probably be focused more on niches such as cultural and historical tourism, discovering the south of the country, and so on,” Kateb said, going on to add that it was important that the country find and develop a model of its own.

Mohammed Khalef, director of the Hamam Bouhadjar Spa in north-western Algeria, agreed that the country’s desert holds particularly strong potential. “At the moment the south is almost unexploited due to a lack of hotel infrastructure, but up until the 1990s there were a lot of tourism circuits in the region and Ghardaïa was the most visited town in the country; more popular with international tourists than Marrakech,” he said, arguing that such levels of activity could return to the region.

DOMESTIC MARKET: With requirements for most foreign visitors to apply in advance for visas, in addition to foreign travel warnings and restrictions on the movement of foreign visitors in some parts of the country still in place, domestic tourism unsurprisingly dominates sector activity. For example, Algerian residents accounted for 86% of nights spent in accommodation establishments in 2016. With mass foreign tourism not a priority on the government’s policy agenda, the domestic market also holds the most potential for increased development in coming years. With the country being home to 40.6m people, this potential is substantial. “There is already strong demand for domestic tourism, though it is not satisfied because of a lack of infrastructure,” said Kateb.

The market’s promise is further underscored by the fact that 1.85m Algerians visited neighbouring Tunisia in 2016 (up from 1.39m the previous year) according to ONS figures – equivalent to 50% of the number of Algerians residents who stayed in domestic accommodation establishments during the year. Numbers will be even higher for 2017 as a whole – the Tunisian authorities in late August said that more than 2m Algerians had come to the country between the beginning of the year and August 10, leading to speculation that the total number of visits will pass the 3m mark by the end of the year.

The recent large increase in the number of Algerian visitors to Tunisia is most likely a result of two major terrorist attacks targeting European tourists in Tunis and Sousse in 2015, which saw the number of European visitors to the country plunge, while pushing down prices and making the country more affordable for tourists from Algeria. Adjacent to Algeria and easily reachable by road, Tunisia is both geographically close and culturally similar, making it a practical destination for citizens.

This has led to a notable reduction in visits by residents to Algerian domestic tourism sites; for instance, the beaches of Boumerdes, a popular holiday spot which neighbours Algiers, saw a 30% drop in tourist arrivals in the summer of 2016, though the number of hotel nights spent by resident Algerian nationals in the country actually rose during the year.

ENCOURAGING INVESTMENT: Under the Tourism Development Masterplan, the authorities aim to increase the sector’s contribution to GDP to around 10%, and also plan to roughly quadruple the number of tourists in the country by 2030.

While public investment – such as the current AD70bn (€580.6m) being spent on renovating and expanding the publicly owned hotel segment – will play a role, the plans will require large-scale private investment in the development of infrastructure and hotels, particularly given the recent efforts to rationalise government expenditure following the 2014-15 international oil price slump.

The authorities have taken a number of recent measures to encourage such investment in the sector. Most companies operating in the industry were exempted from the 3% rise in the corporate tax rate introduced in 2015. Tourism establishments benefit from a corporate tax holiday during their first 10 years of operation, as well as from the tax on professional activity for their first three years under the 2016 investment promotion law, which also exonerates them from value-added tax and import taxes on equipment and furnishings acquired during their construction phase. The sector also enjoys a wider reduced rates of value-added tax at 7%, in place until 2019, and firms are eligible for a five-year interest rate subsidy worth 3% off the cost of a loan, introduced in 2016.

INTERNATIONAL BOOST: While domestic tourism is likely to remain the main driver of growth and although the development of mass-market package tourism is not on the cards, the authorities nonetheless aim to boost foreign tourism. To this end, in July 2016 the authorities announced that MATTA and the Ministry of Foreign Affairs were jointly considering moves to reduce the burden imposed by the country’s visa process on visitors – though there have been several Cabinet reshuffles since then, meaning the status of the initiative is currently unclear.

| Foreign visitor arrivals by continent, 2016* (%) |
|-----------------|---------|
| Africa          | 0.9     |
| Europe          | 0.1     |
| Asia            | 68.7    |
| Americas        | 23.5    |
| Oceania         |         |

Source: ONS

*not including Algerians living abroad
TOURISM OVERVIEW

The country’s 1000 km of largely undeveloped coastline offers strong potential for the tourism industry.

Efforts to boost air transport infrastructure should also help with the development of tourism in coming years. A 73-ha new international terminal, capable of hosting 10m passengers a year, is being built at Algiers’ Houari Boumediene Airport. In September 2017 the authorities announced that the project was 75% complete and remained on track for completion in 2018. The Algiers’ metro system is also being extended to reach the airport. Furthermore, in September 2016, national flag carrier Air Algérie announced plans to acquire 40 new aircraft between 2018 and 2025, which will bring its fleet size to around 100. The firm bought 16 new aircraft under a previous 2012-17 acquisition plan.

SPATOURISM: A key focus of current sector development efforts is spa tourism, which is already well developed and has substantial additional potential thanks to the country’s wealth of hot springs.

“Algeria is home to more than 200 springs with therapeutic properties that have been demonstrated by scientific studies, and their waters are generally pure and clear of any kind of bacterial pollution,” Bounafaa told OBG, adding that the segment would play a key role in the government’s strategy for developing both domestic and international tourism.

The segment currently comprises eight large government-run facilities that have agreements in place with major local health insurance providers, such as the state-run National Health Insurance Fund, to provide treatments to their clients, in addition to 13 privately run spa resorts.

“Spa tourism has very strong potential,” agreed Khalef. “There are at least 10 spas of a very high level in the country, offering modern treatments such as balneotherapy and physiotherapy, though not all of these establishments currently provide a good enough quality of accommodation,” he said.

Efforts are under way to remedy this: in 2015 the government launched an initiative to modernise the eight state-run facilities, at an investment cost of AD12bn (€99.5m), as part of Groupe HTT’s wider AD70bn (€580.6m) renovation programme. Khalef told OBG that three of the government-owned spa resorts in the west of the country were undergoing renovation, including the Hamam Bouhadjar facility.

“We have launched an international tender for the works, which will see the facility closed for a year in order to renovate the spa and treatment areas and our equipment,” he said, adding that the works should boost visitor numbers. “We have lost a lot of guests recently because the quality of our infrastructure hasn’t been high enough,” he said.

Privately backed activity in the segment is also due for rapid expansion in coming years, with Djamel Ali, then-minister of tourism, announcing in April 2017 that 70 hot springs across 24 governorates in the country had been turned over to private investors for development into spa facilities.

OUTLOOK: The Algerian tourism sector’s potential is difficult to dispute, given the country’s natural assets, its large domestic market and the under-developed state of infrastructure.

While the authorities have made it clear that they do not wish to develop a mass-market foreign tourism model, the growing activity by international hotel operators suggests that the fulfilment of the country’s international potential, which has been largely on hold in large part since the late 20th century, may now be well under way.

However, the future of the sector will nevertheless remain dependent on a wide range of factors, such as the authorities’ ability to mobilise continued investment in the current difficult economic environment, in addition to ensuring that institutions which are seeking to develop the domestic market can compete with the low-cost options on offer in other countries in the region, particularly at a time when local purchasing power is under a lot of pressure.
Suite success

Lazhar Bounafaa, CEO, Groupe Hôtellerie Tourisme Thermalisme (HTT), on strengthening Algeria’s tourism offerings

How would you assess the capacity of the hotel industry as it currently stands?
BOUNAFAA: The current capacity of the hospitality sector in Algeria is estimated at 120,000 beds, offered by 1184 hotels, of which 9000 beds fall into the four or five-star category. HTT’s current total capacity is 30,000 beds, and our objective for 2018 is to reach 32,500 with the opening of several new developments, mostly in the mid-tier segment. This range offers room for growth, since most of the existing hospitality chains – El Aurassi, Sofitel, Mercure – compete in the premium segment. The industry needs to widen its offerings to all types of activities, including seaside, urban, Saharan and business, among others.

The National Tourism Development Plan aims to add 500,000 hotel beds by 2030. Since 2015, 2500 new tourism projects are under way, of which 1000 are tourist complexes, villages or hotels. These will add 120,000 beds to the national capacity by the end of 2018. The strategy relies on seven “pillars of excellence” which also focus on integrating partnerships between tourism and hospitality infrastructures in each region.

What are the main tourism projects under way?
BOUNAFAA: The years 2017 and 2018 are dedicated to the development and modernisation of 70 existing projects, including hospitality units, seaside villages and balneology resorts, at an investment cost of over $1bn. The tourist infrastructure of Zeralda and Andalouses will benefit from a brand new thalassotherapy centre, while the thermal stations of Sidi Fredj and Chellala are both set to see new hotel developments, and several new holiday villages are to be found across the country.

How can tourist numbers be increased, and what can be done to attract greater foreign investment?
BOUNAFAA: In order to increase the number of visitors, we need to apply the following key measures. First, there should be an upgrade of our hotel infrastructure in accordance with international standards. Services offered to clients need to be diversified by promoting innovative products focused on specific tourism areas, including desert trips, urban tours and balneology. Second, with regard to human resources, employees involved in customer relations – maids, bartenders and receptionists, for example – should be properly trained to do so. Senior managers also need to receive more specific training. Third, some hotel structures could benefit from partnering with international chains in order to upgrade the level of quality and better integrate Algeria into the global market. In this sense, sector decision makers should strengthen their relationships with foreign travel agencies and tour operators. Promoting the image of Algeria as a tourist destination is central to boosting visitor numbers.

As for attracting more foreign investments, Law No. 16-09 issued in August 2016 offers a number of financial, tax and land advantages to investors. For example, it exempts investment in tourist projects from Customs duties and value-added tax during the building phase.

What is the potential of the thermal segment?
BOUNAFAA: Algerian thermal sources represent an important asset on which we must capitalise. The country holds 202 water sources with scientifically proven medical benefits, and there are more than 80 thermal stations in Algeria. Given this potential, the segment is ideally placed to play a key role in the sector’s development strategy, by targeting both national and international markets. In addition, among the numerous thermal stations across the country, eight are designated by the National Social Insurance Fund, which can provide added value for tourists. Since 1990 thermal facilities have been adapting their provision to rehabilitative care, with the segment attracting 300,000 patients per year. The modernisation programme created in 2015 focused on thermal facilities’ plans to rank Algeria as a destination of excellence for balneology.
Welcome expansion

The burgeoning hotel industry is expected to boost visitor numbers and create jobs

For many years Algeria hosted only a small number of hotels operated by international chains, with options limited to a handful of establishments, even in the capital. However this has been changing in recent years, with a substantial number of branded facilities having been opened in Algiers and beyond, making for a promising outlook in the sector.

**FRENCH PIONEER:** The recent wave of openings arguably began in 2009, when French hotel operator Accor opened its first Ibis-branded facility in the country, in the suburb of Bab Ezzouar near Algiers’ Houari Boumediene Airport. Prior to that the French group already operated a Mercure-branded hotel and a Sofitel in the capital, opened in 2000 and 1992, respectively. Several other internationally branded hotels, such as the Sheraton in Algiers and Hilton, are also present in the country.

However, the Ibis was the first hotel to be opened by Accor under a joint venture known as Société Immobilière et d’Exploitation Hôtelière Algérienne (Sieha) with local company Groupe d’Investisseurs du Maghreb et du Moyen-Orient, founded in 2005, and was followed soon afterwards by further openings by Sieha and other firms.

Since then Sieha opened Ibis-branded establishments in Oran and Tlemcen in 2011, and both an Ibis and a Novotel in Constantine in 2012. The firm’s plans to open 20 hotels across the country appeared to be put on hold after this, but in April 2017 it inaugurated an Ibis and a Novotel on the same site in Sétif, both of which have 120 rooms. Furthermore, Sieha now manages the Royal Hotel in Oran.

**US EXPANSION:** Other chains are also expanding in the country. In January 2017 USoperator Marriott announced plans to open the Sheraton Annaba, its seventh establishment in Algeria, in the north-eastern city of the same name.

The 18-floor hotel will have 201 rooms and 1400 sq metres of meeting space. The investor behind the establishment is the local company the Société d’Investissement Hôtelière (SIH).

The US firm, which already operates 1580 rooms across its six other Algerian facilities, has plans to open six more hotels in the country, including a Protea Hotel by Marriott in the eastern city of Constantine, where it already operates a Marriott-branded establishment. Other hotels operated by the firm include three establishments in Oran (a Sheraton, a Four Points by Sheraton and a Le Meridien) and the Sheraton Club des Pins in Algiers.

**NEW ARRIVALS:** Several other major players in the international industry are also entering the market now, as local investors look to foreign operators to manage their facilities. In March 2017 Hyatt announced plans to open its first establishment in Algeria, the Hyatt Regency Algiers Airport at Houari Boumediene Airport, in 2018 in partnership with SIH. The hotel will have 326 rooms and will be connected directly to the airport’s new international terminal (see overview). In April 2017 local media reported that Louvre Hotels was planning to open a 91-room Tulip Inn-branded establishment, also at Houari Boumediene Airport, in the third quarter of the year. The group already operates a Royal Tulip-branded hotel in Skikda in the west of the country.

Carlson Rezidor is also due to open its first hotel in Algeria in April 2018: a 147-room Radisson Blu in the upmarket Hydra area of the capital. The firm first signed a management contract with a local investor for the facility in 2013, but the project has faced delays. The hotel is the first of 30 the firm plans to launch in the country. The firm’s other projects will include 10 Radisson Blu hotels and 20 Park Inn by Radisson establishments.

“We have decided to make Algeria our beachhead in our African expansion strategy,” Malek Baiche, Maghreb development director at Carlson Rezidor told OBG, describing the market as having real
potential. The firm has already signed a management contract with the investor behind its Algiers establishment for another Radisson Blu in Tipaza, which will have 250 rooms. Baiche told OBG that construction work on the hotel is due to begin in February 2018, and that such projects typically took around two years to launch once building work had started. The firm has also signed a preliminary agreement with the same investor for seven other establishments, and speaking in October 2017, Baiche told OBG that the company had six or seven other projects in the pipeline that were close to being finalised, with others under discussion.

“Only around 10% of hotel rooms in Algeria are up to international norms and international firms are all realising that there is a gap in the market,” Baiche told OBG, explaining the hotel industry’s recent surge in activity. He added that under Carlson Rezidor’s most conservative forecasts, the market requires a further 240,000 hotel beds – about two and a half times its existing capacity – with the additional beds mainly needed for business travellers. Hotel operators benefit from the fact that they are not constrained by rules limiting foreign companies to a maximum 49% ownership stake in Algerian entities, as generally they are not – with some exceptions – investing in the hotel themselves.

MANAGEMENT POTENTIAL: The state-owned hotel segment could provide further opportunities for international operators. The government-owned Hôtellerie Tourisme et Thermalisme Group (Groupe HTT), which operates 70 hotels, spas and resorts (see overview and interview), is currently undertaking an AD70bn (£580.6m) renovation and expansion of its facilities, due to be completed in 2018. Lazhar Bounafaa, Groupe HTT CEO, told OBG that putting some of its facilities under the management of international firms will be a key element of its plans to boost visitor numbers once works are complete.

UPMARKET GROWTH: A boost in activity by foreign operators has helped to drive an increase in capacity at the higher end of the hospitality market. The number of five-star hotels in the country jumped from eight in 2015 to 13 in 2016, with the number of beds in the category rising by 59% to 6734, according to figures from the National Statistics Office (Office Nationale des Statistiques, ONS). The number of four-star hotels doubled to 12 over the same period, with bed numbers increasing by 56% to 1810. The three-star hotels segment also saw a strong growth in numbers, increasing from 39 hotels in 2015 to 51 in 2016, with bed numbers up 21%, reaching 7045.

By contrast, the number of hotels operating in each of the no-star, one-star and two-star categories remained unchanged, with bed capacity also stable or – in the case of the two-star market – falling slightly, while the number of hotels awaiting classification in the segment rose only slightly.

DEVELOPING A WORKFORCE: One of the principle rationales for developing tourism in Algeria is that it holds strong potential for job creation, particularly in a country that has high levels of youth unemployment. The sector is also an attractive one to young Algerians due to its positive prospects. “There is a strong desire amongst Algerians to enter the hotel industry, as long as there are real opportunities for career progression,” Baiche told OBG.

However, as the sector is currently under-developed, there will be a need for large-scale training programmes to ensure the availability of a skilled labour force that is able to provide high levels of service in the country’s accommodation market.

“The concept of service isn’t really well established among people seeking to enter the industry,” said Baiche, emphasising the need for such training. However he said there was a will to improve, and that the issue was not a major problem, as operators would be able to provide training where needed. Baiche also added that Carlson Rezidor was looking at establishing partnerships with local educational institutions to create such training programmes.

TRAINING: Bounafaa told OBG that such training was also a priority of Groupe HTT. “Given the importance of human capital and the major role it will play in revitalising our various activities, the group has decided to prioritise staff training as a key element of our medium- and long-term strategy,” he said, adding that Groupe HTT too was also looking to develop training and education partnerships between the public and private sectors.

In September 2017 Groupe HTT signed an agreement with the National Apprenticeship and Continuing Training Development Fund which is part of the Ministry for Training and Professional Education. The agreement establishes a programme that will train instructors for apprentices working for Groupe HTT – which is roughly 3000 employees – in 14 key areas of activity in the tourism, hotel and spa sector, including cooking and restaurant services, human resources, as well as reception and hospitality roles.
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Health & Education

Public funding remains steady despite falling revenues
New holistic method of teaching introduced in schools
Tertiary training to place more focus on practical skills
Private sector medical facilities improve capacity
National preventative programmes launched in 2017
Shaping up

Updated strategies and prevention programmes raise health indicators, while new reforms aim to ease funding pressures

Over the past two decades considerable progress has been made in the coverage and quality of health care services, with indicators improving steadily, alongside a decline in instances of communicable diseases. As a result, life expectancy at birth has risen from 68 years in 1995 to 76 years as of 2015, according to the latest World Bank figures. Despite the rise in life expectancy, mortality rates remain relatively high – the infant mortality rate stood at 22 deaths per 1000 live births in 2016 – though recent efforts to improve maternal care and paediatrics may see these ease in the years ahead. Another area of concern is the regional disparities in health care, particularly in the southern and the Hauts Plateaux wilayas (provinces). Lastly, Algeria’s increasingly ageing population is seeing a rise in chronic illnesses, particularly diabetes, cancers and cardiovascular diseases.

BUDGET: Health care is heavily subsidised in Algeria in line with the introduction of a national health care system in 1975. Most services are free for citizens at public hospitals and clinics, and the cost of most medicinal purchases is reimbursed by the government. While the large majority of health establishments in the country are still completely subsidised by the government, this is gradually beginning to shift as the private sector grows.

The Ministry of Health, Population and Hospital Reform (Ministère de la Santé, de la Population et de la Réforme Hospitalière, MSPRH) receives the fourth-largest portion in the national government budget. Despite a challenging fiscal situation, the percentage of the total operating budget allocated to health was 8.5% in 2017, the highest percentage in five years. The 2017 Finance Law outlined a health budget of AD389.1bn (£3.2bn). This was increased to AD392.2bn (£3.3bn) in the 2018 Finance Law.

PRIVATE SECTOR: Even though the state is heavily involved in health care, there were 8400 private specialist practices and 7000 private generalist practices as of 2015. In recent years a number of private facilities and clinics have opened across the country, both in general and specialised care, while many of the existing private establishments are expanding. Azur Medical, for instance, opened as a medical diagnostic centre in 2014, but it now has plans for additional branches of care. “Future projects include a medico-surgical clinic and maternity clinic, which are already in progress,” Dr Amina Aïssani, director of Azur Medical, told OBG.

The MSPRH’s national health policy recognises the private sector as key to filling gaps in care and relieving pressure on public facilities. In 2017 the ministry sent a bulletin to the directors of health in each wilaya, calling on them to encourage private facilities to offer 24-hour services in order to lighten the load at public hospitals. Both public and private health structures are subject to oversight by each wilaya’s director of health.

In terms of human resources, the sector is split, with 57% of all registered practitioners working in the public sector and 43% in the private sector as of 2015. Typically, general practitioners are predominantly in the public sector, while specialists and dentists are split fairly evenly. Conversely, the vast majority of pharmacists work in the private sector.

GOVERNMENT STRATEGY: Dr Mokhtar Hazbellaoui, a professor who was previously the director-general of the National Institute for Public Health, took office as the minister of health, population and hospital reform in May 2017. The current national plan for health places an emphasis on raising maternal health standards and aims to reduce neonatal mortality through prevention programmes. The government has also begun initiatives to expand family planning, prevent disability where possible and reduce the spread of communicable diseases that could be avoided through more widespread vaccination programmes. Long-term strategic planning for the
The sector focuses on initiatives to combat risk factors for non-communicable diseases, including the 2015–19 Anti-Cancer Plan, and an education programme to prevent smoking and drug addiction.

**REFORM:** For the past few years the government has worked towards a new regulatory framework for the health sector to update the 1990 amendment to the 1985 Law on Health. In September 2017 Hazbellaoui unveiled a draft scheme aimed at reorganising the system of patient care and improving the coverage of health services. In addition, the Council of Ministers adopted a bill to modernise health infrastructure in October 2016. A crucial reform in the bill is the introduction of a new policy that allows patients to pay for health services, although the legislation also reinforces the provision that citizens cannot be denied access to emergency medical care if they cannot afford to pay. President Abdelaziz Bouteflika reiterated at the presentation of the bill that the right to health care remains a fundamental principle of Algeria’s social policy. In the context of lower state revenues, however, this new policy marks an important shift from full coverage.

The reform adds grounds for legal abortions, prohibits cloning, and amends rules surrounding the transplantation of organs and tissue. It also provides for the preparation of specific health programmes for adolescents and certain disease groups. Another major component of the reform is allowing cancer treatment to be covered whether the treatment occurs in a public or private facility, as it is not currently covered by the public health system. Patients would be allowed to apply for approval from the state to cover all or part of the treatment cost. To guide governance moving forward, the bill establishes two new authoritative bodies: the National Health Council and the Committee for the Prevention and Fight against Non-Communicable Diseases.

Another objective of the reform is to bring Algeria’s health sector up to international norms in terms of ensuring human rights. The bill introduces the concept of non-discrimination on the grounds of origin, religion, age, sex, social or family situation, health situation or disability. Furthermore, it includes amendments to strengthen the practice of free, informed consent for medical procedures.

The bill also provides a legal framework for the establishment of health e-cards for patients. The government announced the launch of its SIHATIC system in February 2017, but the project still has some way to go, as it was only in its organisational phase as of May 2017. The objective of the SIHATIC system is to make patient information available to be updated and shared among medical practitioners. This will benefit patients, make processes more efficient and provide policymakers with broader information. At the time of print the bill was still in draft form, awaiting approval from the Parliament.

**MATERNAL CARE:** Efforts to improve the relatively high rates of maternal and infant mortality are well under way. In 2000 there were no maternal and paediatric hospitals in Algeria, but there are now 30 such hospitals and over 400 centres specialising in maternity care. A 150-bed obstetrics clinic is expected to open in the capital at the end of 2017, while an 80-bed maternity centre at the Algiers University Hospital and a 120-bed paediatric centre specialising in infant cardiology at Bou Ismail are both expected to be inaugurated in late 2018.

The MSPRH is also seeking to reduce the birth rate through family-planning initiatives, as Algeria is experiencing a new baby boom, with the number of births increasing by roughly 70% since 2000 to reach over 1m in 2016. The ministry has targeted reducing the birth rate from the average of three children per woman in mid-2017 to 2.1 by 2035.

**CARDIOLOGY:** Cardiovascular diseases remain the largest cause of mortality in the country, accounting for 42.5% of deaths in 2016. To cope with the high volume of cases, human resource capacity in this area is generally higher than that of other medical sectors.

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Health budget, 2013-17

**Source:** MoF
The government’s 2015-19 Anti-Cancer Plan seeks to construct new cancer treatment centres, train specialised medical practitioners and launch prevention campaigns.

The government launched the 2015-19 Anti-Cancer Plan as a means of constructing new cancer treatment centres, training more medical practitioners and launching prevention campaigns. Of the 13 centres discussed in the plan, six are already operational and seven are under construction.

The 2015-19 Anti-Cancer Plan emphasises collaboration with the private sector, especially where public services are strained. Private clinics, such as Fatéma Al Azhar, are encouraged to offer cancer treatment services. “The plan acknowledges that the public sector cannot respond to all of the needs and that the private sector has a role to play, notably in the demand for radiotherapy,” Hamadache told OBG.

RADIOTHERAPY: The availability of radiotherapy treatment has been gradually increasing in Algeria, but there is still a large deficit in infrastructure and technical capacity. “When we talk about 43,000 new cases of cancer per year, at least 30,000 of these will need radiotherapy. Since each accelerator can take only 500 cases per year, Algeria in reality needs at least 50 or 60 accelerators,” Hamadache said. As it stands, Algeria has a total of 34 functional radiotherapy accelerators, 24 of which are in the public sector and 10 in private clinics. While the three new cancer treatment centres set to open in 2017 will add a further nine accelerators, this still leaves a large deficit, presenting an opportunity for the private sector to invest in the radiotherapy segment.

A number of international firms have already begun to do so; for example, in March 2015 the US company Varian Medical Systems created a branch in Algeria in partnership with Cialfarm, a subsidiary of Algeria’s group ETRHB Haddad. Varian Algeria is a key player in the maintenance of radiotherapy accelerators. It has 11 customers and 21 accelerators, and plans to manage a maintenance logistics base as well as a training centre for radiotherapy equipment technicians in Algeria.

PREVENTION: Given that tobacco is the cause of some 15,000 deaths in Algeria annually, making up around 35% of total cancer diagnoses, the government has launched a plan that seeks to lower the incidence of lung cancer through a reduction in tobacco consumption. It is hoped that this plan will also lower incidences of cardiovascular, respiratory and infectious diseases, as tobacco is cited as a source of these as well. The prevalence of tobacco addiction is high in the country, with a survey conducted by the MSPRH in 2010 finding that 27.1% of men and 1.7% of women smoked. The rate of addiction is highest for those aged 26-35 years, at 33.4%. The prevalence of smoking has an important impact on public spending; according to a National Social Security Fund survey from 2016, 27.7% of Algerians receiving social insurance are addicted to tobacco. To counter specialties. Cardiology treatment is fully reimbursed by state, which imposes a large financial burden as treatments can be very expensive. For example, the operation to receive an artificial heart valve costs around AD650,000 (€5390) on average.

CANCER: Impacted by changing lifestyles and an ageing population, the country has witnessed a notable rise in the number of cancer cases. As of 2016 there were around 480,000 Algerians with cancer, of which 43,000 new cases were diagnosed that year. Breast cancer is the most common type of cancer for women, with around 8000 new cases diagnosed each year, while lung cancer is the most common type for men, with 2200 new cases diagnosed in 2015. Cancer has become the second most common cause of death after cardiovascular diseases, and the country’s capacity for treatment has not kept pace with the rising number of incidences. According to the Algerian League for the Defence of Human Rights, more than 12,000 cancer patients die each year as a result of inadequate care. “There are around 20 entities that cover cancer in Algeria; however, the number of sick patients is very high, and the entities are unable to cover all of the cancer cases,” Dr Toufik Hamadache, director of the private Fatéma Al Azhar Oncology and Radiotherapy Clinic, told OBG.
this, the National Social Security Fund has begun an awareness campaign on the risks of tobacco. The 2015-19 Anti-Cancer Plan also includes initiatives to increase awareness about early detection of cancer. It encourages women above the age of 40 to receive systematic mammograms and men to have prostate exams to check for cancer. The authorities are also working with experts in the field to launch screenings for colorectal and digestive cancers.

**DIABETES:** Nearly 5m people in Algeria suffer from diabetes, according to the Algerian Federation of Food Industries. This high number is often attributed to changing lifestyles, following the sharp increase in imported Western foods that have high sugar levels. Indeed, imports of sugary products increased by 36.9% year-on-year in the first seven months of 2017. As a means of preventing the disease, an inter-ministerial decree to strengthen nutritional labelling requirements was passed in September 2017. Furthermore, rules to limit the allowed levels of salt, sugar and fat in food products are being considered.

**VACCINATION:** The country’s public vaccination programme – which is free of charge and compulsory – has been largely successful, with the national coverage rate reaching over 90%. The coverage rate of routine vaccinations for students in their first year at university is even higher, at 94.3%. The latest addition to the vaccination programme came in 2014, when the MSPRH brought in hepatitis B vaccines for students enrolled in biomedical sciences.

**HUMAN RESOURCES:** While the number of medical practitioners has more than doubled since 2000, human resources in the sector remain strained. According to the most recent available figures from the World Bank, Algeria had 1.2 medical physicians per 1000 people as of 2010. “The biggest concern in the private sector is finding qualified personnel and doctors,” Dr Aïssani of Azur Medical told OBG.

The deficit in human resources is particularly acute in cancer treatment. As part of the 2015-19 Anti-Cancer Plan, training for doctors and biologists has begun at the National Higher Institute of Paramedic Training in Oran, which has become the leading training centre for cancer-related specialists, ranging from oncologists to analysis of cytology. However, radiotherapist training can take at least 10 years of study after secondary school, which means that although these courses have already begun, there is a lag. As a result, despite the gains in raising the number of cancer treatment facilities with radiotherapy accelerators, the personnel needed to operate the equipment are still in training. In the interim, these facilities will need to rely on international doctors.

There is also substantial deficit in nurses and paramedics. As of May 2017 there were 100,000 nurses in Algeria, which translates to a relatively low rate of 2.4 nurses per 1000 people. The MSPRH has begun a programme to train 72,000 paramedics, which should improve emergency response services.

**MEDICAL TOURISM:** Transfers of patients abroad have decreased by 90% since 2000, reflecting the considerable improvements that have taken place in the domestic system. However, a large number of Algerians still go abroad for more complex medical treatments. France granted 1600 medical visas for Algerian citizens in 2014, and it is estimated that many more Algerians visiting France on tourist visas seek out medical treatments while there. A sizeable number of Algerian medical tourists also travel to Tunisia, Morocco and Turkey.

**PHARMACEUTICALS:** The country’s pharmaceutical segment – comprising producers, importers, distributors and pharmacists – is a dynamic one, having over 9960 pharmaceutical offices as of 2015. There are several major international pharmaceutical companies present in Algeria. Notably, this includes Sanofi, the fourth most profitable pharmaceutical company globally, which has been present in the country since 1989. France’s Sanofi established a partnership with Winthrop Pharmaceutical Saida in 1999 for the domestic manufacturing, processing and marketing of medicines. The firm now has two factories in the country and has invested €85m to build another at Sidi Abdallah, in the north-eastern wilaya of El Oued. The new factory is set to produce 80% of the volume Sanofi distributes in Algeria.

**LOCAL PRODUCTION:** Sanofi Algeria currently produces 50% of its portfolio locally. The domestic pharmaceutical segment has some way to go to achieve the government’s goal of meeting 70% of national demand for medicine with domestic production by 2019. According to Mustapha Youbi, public affairs director of Sanofi, there are 84 local production units in total in Algeria, which collectively produce around 60% of the volume in the market. Localisation of pharmaceutical production is strongly incentivised by the government, largely through a policy introduced in 2008 that restricts imports for products that could be produced locally with existing production facilities. Another incentive is the

By 2019 the government aims to meet at least 70% of national demand for medicine through local production. The public vaccination programme reaches over 90% of the population.
Authorities are weighing new safeguards to prevent a shortage of certain medicines – as occurred in mid-2017 – including the creation of back-up stocks of high-risk drugs.

**Health Overview**

The private sector has been encouraged to invest in radiotherapy to cover the existing capacity deficit. Authorities are weighing new safeguards to prevent a shortage of certain medicines – as occurred in mid-2017 – including the creation of back-up stocks of high-risk drugs.

**Drugs Shortage:** In March 2017 Messaoud Belambri, the president of the National Union of Pharmacists, told local press that there was a shortage of as many as 140 different medicines, including painkillers used for cancer patients as well as other morphine derivatives. The government attributed the supply tensions to production being transferred from one factory to another and the shutdown of production in an Austrian laboratory. Import restrictions, which limit the stock of medicines, further exacerbated the issue. To mitigate the risk of shortages in the future, the MSPRH is weighing potential safeguards such as importing drugs with longer validity dates, creating back-up stocks of high-risk medicines, strengthening regulations and controls over the sector, and promoting generic drugs.

**R&D:** While there is strong potential in Algeria for clinical trials, there are still some gaps in areas such as regulation. The government has been working on setting up a cluster for clinical research to allow pharmaceutical companies, biotechnology institutes and universities to brainstorm and assess opportunities to gather epidemiological data. “There have been significant evolutions unfolding, but in general the health sector needs to further develop clinical research as a medical, scientific and economic lever for the country,” Dr Amine Sekhri, general manager at Roche, a Swiss pharmaceuticals company, told OBG.

**Outlook:** Overall, health indicators are improving thanks to strategic government planning and continued widespread coverage of health care for citizens. Further, opportunities for private sector growth and investment are strong, particularly in the pharmaceutical industry; however, finalising reforms and addressing persistent concerns of stakeholders will be key to ensuring targeted progress takes place.
Access all areas

Mokhtar Hasbellaoui, Minister of Health, Population and Hospital Reform, on modernising and regulating medical practices to further socio-economic dynamism

Since its independence Algeria has experienced significant socio-economic development. Efforts in the health sector led to an increase in life expectancy, rising to 77 years in 2016 from 50 in 1962. Several projects in 2017 mobilised the country in terms of demographic evolution and societal dynamism, including making accessible specialised treatment in nephrology such as transplantation for patients with renal impairment.

The People’s National Assembly has engaged in debates surrounding the issuance of a new law that could result in hospital reform and the establishment of a dedicated framework. The new law will aim to organise the national health system to better meet the health care needs of its citizens, looking at both prevention and specialised treatments. Moreover, innovative mechanisms will enhance financial structures and modernise management of medical practices through evaluations. For example, establishment of the National Agency for Organs and Tissues Transplant has prepared health care specialists and enhanced Algerian transplantation capacities, and the employment of the dialysis renal impairment register will allow for better management of kidney transplantation. Furthermore, significant effort has been made in the way of treatment for cardiovascular illnesses. In Algeria treatments are readily available in its bigger cities, but more needs to be done to widen access to health services across the whole country, such as rolling out mobile treatment units to places that need them.

Looking ahead, our ministry is happy to talk with potential investors about developing health care throughout regional areas, focusing on establishing general practitioners as the first point of contact. In terms of increasing special care capacities, in 2017 we worked on modernising existing technical equipment. Moreover, two new hospitals dedicated to cardiovascular care are being built in Algiers and Annaba. This is in addition to the new building that is already up and running in Draa Ben Khedda in the Tizi Ouzou Province.

The first one is focused on pregnancy care management and will be reorganised around a network of dedicated centres established in every wilaya (province). These centres offer a complete scope of health care services, and regulatory measures have been set to ensure that every woman is registered in the system by her doctor from three months of pregnancy onwards. This allows for better follow-up and childbirth management. The project will be integrated into the recently standardised national health system that aims to better allocate human and material resources. In the short term the second project involves rolling out a new pharmaceutical policy. Its goals are to stimulate local production of pharmaceutical drugs, promote generic drug prescription, standardise therapeutic protocols and meet local demand by ensuring that importers uphold their safety responsibilities.

We have also progressed in the area of medically assisted reproduction (MAR), underpinned by the belief that financial constraints should not be a factor in preventing people access to health care. Today, there are 16 functional private centres specialising in MAR, with eight others currently in construction. Within the public sector we reopened the MAR units in the Parnet (Nefissa Hamoud) and Oran Hospitals. Finally, we are working on introducing a department for mental health among the ministry’s organisational chart.

By 2030, the target year for the Sustainable Development Goals programme, our population will grow from 41.7m to over 51m. In light of this, our main objective is to enhance family planning. The percentage of married women between ages 15–49 that aren’t familiar with any type of contraception dropped from 74% in 1968 to zero in more recent times. Nowadays, contraception is used by 57% of married couples compared to only 8% in 1970. These advances, in addition to a permanent upgrade of our data and statistic systems, will enable proper management of the balance between demographic growth and virtuous economic development.
An overhaul of teaching methods and increased funding to raise the standard of learning at all schooling levels

Despite strained public finances, the Ministry of National Education (Ministère de l’Éducation Nationale, MEN) has maintained its commitment to improving the standard of education provided to Algerian citizens. Public schooling is free and obligatory up to the lower secondary level, and additional assistance is provided to impoverished families, all of which has contributed to the country’s high enrolment rates. According to the most recent figures from the World Bank, the gross primary school enrolment rate was 116% in 2015 – signalling that a number of children are made to repeat school years – while the rate for lower secondary was 99% in 2011.

Tertiary education is developing rapidly, following the government opening up markets to private sector participation. Indeed, private players have been important partners for the Ministry of Training and Professional Teaching (Ministère de la Formation et de l’Enseignement Professionnel, MFEP), helping to modernise training programmes that cover highly sought-after professions in the labour market.

BUDGET: Over the past year Nouria Benghabrit-Remaoun, the minister of national education, has assured the public that the financial crisis will not affect education. The government followed through on these promises, allocating AD746.3bn (€6.2bn) for education in the 2017 Finance Law, accounting for 16.2% of the total. Benghabrit-Remaoun has sought to make sector administration more efficient, outlining a lean operational budget for the ministry – a necessary measure given that teacher salaries took up 85% of the education budget in 2017. In the 2018 Finance Law the allocation for the MEN was downsized to AD709.6bn (€5.9bn) for education in the 2017 Finance Law, accounting for 16.2% of the total. Benghabrit-Remaoun has sought to make sector administration more efficient, outlining a lean operational budget for the ministry – a necessary measure given that teacher salaries took up 85% of the education budget in 2017. In the 2018 Finance Law the allocation for the MEN was downsized to AD709.6bn (€5.9bn), though the budget for Higher Education and Scientific Research was raised to AD313.3bn (€2.60bn) from AD310.8bn (€2.57bn) in 2017.

STRUCTURE: The public school system is split into three levels: primary, which lasts for five years; followed by four years of lower secondary; and three optional years of upper secondary. Basic education, defined as primary and lower secondary school, is mandatory for all Algerians. It has been estimated that 4.3m students will attend primary school in the 2017/18 school year, with 2.8m students in lower secondary and 1.2m in upper secondary.

PERFORMANCE: At the end of each level of schooling, students take a completion exam. The 2016/17 academic year saw the success rate for the primary school completion exam reach 89.3%, which was an increase of 10 points from the year prior. The pass rate for the lower secondary exam was substantially lower, at 56.3%. The rate is similar for Algeria’s baccalaureate, the exam given at the end of upper secondary school where a passing mark is needed to enter tertiary education. Of the 750,000 students who took the baccalaureate in the 2016/17 academic year, 56.1% passed, which was an improvement of 6.3 points on the previous year. Mathematics had the highest success rate of any subject, at 68.7%.

EDUCATION QUALITY: Major reforms to public education were implemented in 2003: new teaching methods were introduced, curriculum was restructured and the teaching language was switched from French to Modern Standard Arabic. Despite these efforts, the 2015 UN special rapporteur on education concluded that the quality of education in Algeria remains low, citing inadequate teacher training and overcrowding of schools as the main factors hampering education.

LANGUAGE: The country has a multilingual history, and the official language has been Arabic since its independence, though the government added Tamazight – a native language for Berber populations – as an official language in 2015. Public schooling for the most part is taught in Modern Standard Arabic, even though most children do not speak it at home. Lessons in Tamazight are rare, for instance in the Tipasa wilaya (province) there were only 200 students out of 80,000 registered for classes in Tamazight in 2017.
Once the standard language in education, French continues to be taught in schools and is a subject in the primary school completion exams. Additionally, French is used for the majority of university subjects outside of law, politics and religion, and it continues to be the language of the business community and elites in Algeria. This poses problems for the new generation of students who have completed their basic education in Arabic. “There is still high demand for French. Currently, students in public schools study in Arabic, and don’t read or write in French. However, when they arrive at university, most of the time the teaching is in French, so suddenly they must learn both the subject and a new language,” Flora Stienne, country director for Education First, an international company providing language training, told OBG.

Recently, a fourth language has made its way into the education debate. Over the past two years the minister of national education has advocated for the use of Derija in primary schools, a proposition which has received strong backlash from religious leaders and Arabic proponents. Derija is the native language for most Algerians, combining elements of Arabic, Berber and French. It remains to be seen whether a shift away from Modern Standard Arabic is feasible.

**ENGLISH:** The government is working to improve the quality of English language teaching, in large part through the implementation of a “Marshall Plan for English”, which focuses on working more deeply with foreign actors. “English is new for Algeria, it really is a big change. Now English is the first foreign language to be learned in the country,” Stienne told OBG.

At the moment there is high demand for qualified teachers and a deficit of native English speakers in the sector, which is further hindered by the Ministry of Labour, Employment and Social Security refusing to recognise the English Language Teaching certificate, a global accreditation that many native English speakers obtain to teach overseas. However, there are signs of progress, with the first US school opening in Algeria in 2016, coming after five years of negotiations between the US Department of State and the Algerian government. For the time being the American International School of Algiers offers kindergarten to grade six, but it has plans to eventually become a full K-12 school.

**PLANNING OF ACTION:** Under the leadership of Benghabrit-Remaoun, the MEN launched a plan of action for 2016-19 to pursue a holistic approach – based on quality and pedagogy – to restructure and improve the sector. The plan has eight axes: equity, professionalisation of human resources, reformation of mediation and dialogue, pedagogical methods employed across all levels, and a new system of evaluation and grading for students. Other longer-term priorities include improving language education in primary schools, redesigning the grading system, modernising administrative management and digitising the sector. In the short term there will be new school manuals adopted in 2018/19 to update the curriculum.

**TEACHING METHODS:** To achieve the ministry’s goal of providing a higher standard of teaching that is inclusive for all students, consultations were held with teachers from across a diverse range of wilayas in 2016. These consultations, which sought to evaluate teaching methods and identify areas of concern, found that many teachers called for significant grading system reforms. As such, a new system based on international criteria was created and will be adopted in the 2017/18 school year, with pedagogical methods in public education taking on a more analytical approach to learning. Benghabrit-Remaoun has called on teachers to move beyond recitation of course material and instead encourage students to practise their own critical thinking skills.

**HOLISTIC APPROACH:** There has also been recognition of the importance of extracurricular and cultural activities in public schooling, with civic education and environmental subjects in particular gaining momentum. For example, the ministry has begun an initiative that encourages schools to organise votes for student leaders, in order to promote a sense of democracy and civic participation among the youth.

In 2002 the MEN signed an agreement with the Ministry of Environment to integrate environmental education into the curriculum. Its course for the 2017/18 year is called “Eco-citizens”. Over the years the initiative has raised the awareness of environmental issues in schools; there are now approximately 267,000 students participating in activities at more than 12,000 eco-clubs run through schools.

**TEACHER TRAINING:** Over 36,000 new teachers have been recruited to start in the 2017/2018 school year, coming on top of a year of mass hiring; 93,000 new teachers were hired in 2016. While 99% of teachers at public schools have at least a secondary school degree, many new teachers lack the practical skills and hands-on experience necessary to succeed in the classroom. In September 2017 Mohamed Mebarki, more than 36,000 new teachers were recruited to start in the 2017/2018 school year. This followed the hiring of another 93,000 in 2016.
the minister of vocational education and training, announced two new teaching diplomas that will involve a greater degree of work experience than what has previously been offered in traditional courses. These new diplomas will place a greater focus on social skills, equipping teachers with pedagogical methods and classroom management tools. Training workshops have also been held ahead of the implementation of the new national school manuals, an important part of the government’s ongoing efforts to keep school courses and teaching methods up to date.

**INFRASTRUCTURE:** In response to calls from the People’s National Assembly in the summer of 2017, the government announced the rapid construction and launch of new public schools, which will begin taking on students as soon as 2018. A total of 420 new public schools were built in 2017, which will raise overall student capacity by 9000. These additions will bring the total number of public schools in Algeria to 26,669.

**ASSISTANCE:** On top of free education, the government extends financial support of AD3000 (€24.88) to students from impoverished families to help cover extra schooling costs. Approximately 3.4m primary school students benefitted from the national canteen programme in 2015, a scheme that is still in operation, serviced via more than 14,500 canteens. As another means of reducing costs for low-income households, some 4m students receive free school books.

**SCHOOL HEALTH:** The Ministry of Health, Population and Hospital Reform has deployed more than 2000 health screening and monitoring units at health facilities and schools, with the objective of improving health and promoting preventive care across all levels of school, including tertiary. These units screen for health conditions, treat and manage any detected issues, teach health education to children, carry out vaccination programmes and help ensure that there are proper hygiene practices at schools.

**REGIONAL DISPARITIES:** Inequalities in education are a key challenge, as poor coordination in education and classroom management tools. Training workshops have also been held ahead of the implementation of the new national school manuals, an important part of the government’s ongoing efforts to keep school courses and teaching methods up to date.

**OVERCROWDING:** Alongside increasing numbers of students in primary schools, caused by Algeria’s recent baby boom, overcrowding classrooms have become a concern. The MEN has estimated that 5.7% of classes are too full. These schools are most often located in peri-urban areas, where birth rates are exceptionally high. The ministry has acknowledged that there is an urgent need to address the problem, however a strategy has yet to be announced.

**GENDER PARITY:** The gender distribution in schools is fairly even. At the primary school level 48% of students taking the completion exam were girls. For the baccalaureate level, this ratio increased to 55% of the cohort. More significantly, the pass rate for female students was 65%, beating the overall pass rate of 56%.

Despite positive results at school, female participation in the labour market remains low, at just 17% in 2017.

**UNIVERSITY:** There are 50 universities in Algeria, with a collective 1.7m students. To cope with increasing enrolment rates – which rose by 10 percentage points in 2017 – the Ministry of Higher Education has invested in multiple projects to expand the capacity of the tertiary system, with 4000 new spots expected to open at universities in the 2017/18 academic year. The government invested AD7bn (€58m) in the University of Algiers 2 complex in Algiers, which is 90% complete and due to be finished by the end of 2017. Another large university is under construction in the city of Sidi Abdallah in the north-east of the country, which is expected to have a capacity of 20,000 students and 11,000 beds upon completion.

The ministry is also working to improve public libraries. A new library at Kharoub University with a capacity of 250 people has recently been finished, while a AD140m (€1.2m) library in Kouba is also in the process of being built.

**VOCATIONAL TRAINING:** The vocational training segment has seen impressive growth, with the establishment of new public and private training centres. This partly stems from the government prioritising the segment as a vital component of its strategy to decrease youth unemployment. In September 2017 there were two new diplomas in education introduced, as well as a handful of other new specialties including digitisation, renewable energies and the installation of telephones. These courses will be taught starting in the 2018/19 academic year.

Looking further ahead, the MFEP has announced plans to expand training in targeted sectors, primarily focusing on tourism, textiles and electronics. This will
involve partnerships with major economic players in each sector, in order to provide students with real work experience. It is hoped that such partnerships will also assist young people in securing employment once they have finished their training. Indeed, in 2016 approximately 60% of apprentices were recruited by the companies that trained them.

**Apprenticeships:** The MFEP has placed a strong emphasis on apprenticeships in response to a rise in demand from Algeria’s youth. In February 2017 it was reported that 58.6% of students registered for vocational training had requested apprenticeships. The ministry is now aiming for apprenticeship training to represent at least 60% of vocational training in the 2018/19 academic year. “In this period of rationalisation of state spending, this is the least expensive form of training,” Mebarki told local press in February 2017. In 2016 firms provided 80% of this type of training, with training centres providing the rest. According to Mebarki, the government is working to increase the number of these opportunities even further.

Partnerships with the private sector will be a central part of aligning apprenticeship programmes with the business and labour demands of the economy. To meet rising tourism needs, a collaborative agreement was signed between the MFEP and the Ministry of Tourism in 2017 for more training partnerships to take place in the sector. This will include new apprenticeships in a range of segments, including cooking, services, human resources and engineering.

**Private Sector:** More than half of the 1228 accredited training centres in Algeria are private, and the private sector collectively had 23,000 enrolled students in 2016. “The private sector is a large actor in professional training, especially in tertiary sectors such as human resources,” Mourad Belhou, general manager of CESI, a private professional training centre that has been operating in Algiers since 2003, told OBG. Recognising the importance of the private sector in vocational training, the government has encouraged private players to establish educational centres outside of large cities.

**Soft Skills:** New courses, particularly those offered by the private sector, are placing greater emphasis on soft skills in response to market needs. “The most common type of training that is demanded by businesses is for managerial competencies. This can be management of a logistics chain or management of people,” Belhou told OBG. While human resource structures in Algeria have made considerable progress in recent years, they lag behind international norms. However, Algerian companies are gradually coming to realise the importance of soft skills. “If we look at the success of large groups, the enterprises that have experienced the highest growth rates are recruiting with quality managerial skills in mind,” Belhou told OBG. In addition, CESI has found that training courses in health, security and environment fields within the oil sector are increasingly popular, while training courses that cover integrated management systems have seen rising enrolment rates as well. This was indeed confirmed in the OBG Business Barometer: Algeria CEO Survey, released in November 2017, where 37% respondents said leadership was the skill most in need (see Business Barometer: CEO Survey).

In Algeria there is a system of financing for professional training; however, this funding can only be distributed by companies. To ensure training takes place, the Algerian government has introduced punitive measures in the form of taxes as a way to encourage enterprises to invest in the training of staff. Businesses are required to spend the equivalent of 1% of their salary costs on professional training. If they fail to do so, they are obligated to pay that amount via a tax.

**Brain Drain:** The so-called brain drain phenomenon is particularly pronounced in certain sectors, such as health care, as well as the technical fields of IT and computer science. A huge number of qualified Algerians in these areas seek work abroad, resulting in a deficit in the domestic labour market. “We would say that around 50% of computer science students try to go abroad after their studies,” Belhou told OBG.

In the medical field, the Council of Doctors in Algeria has estimated that there are approximately 13,500 Algerian doctors working in France.

**Outlook:** The stability of the education budget in the face of strained public finances is encouraging for long-term growth prospects. The government’s push to raise the quality of education in its current action plan will be crucial to addressing ongoing concerns, though the issues surrounding languages in the classroom look set to continue. In terms of university education, efforts to revise regulations should further open the door to private sector players. Meanwhile, the professional training sector is likely to remain dynamic. Although the labour market is lacking in managerial and other soft skills, this leaves a gap to be filled, in turn presenting new opportunities, while financial incentives for businesses investing in the training of staff will ensure a steady level of demand.

Businesses are required to spend the equivalent of 1% of their total salary costs on professional training. If they fail to do so, they must pay that same amount in the form of a tax.
Investing in the future

Mohammed Dib, General Manager, Groupe Général Maritime, on enhancing training in the maritime sector

How has maritime training capacity evolved?
DIB: The country owns an institute that trains navigators, but it always lacked the training resources for other maritime and logistics-related roles, which is why a dedicated, registered school for port, maritime and logistics management opened in 2015. Other important sectors under public control, such as rail transportation and oil and gas, have had dedicated training centres for a while. This new maritime training centre, composed of a team of experts, offered only a few workshops to begin with, but rapidly built relationships with other sectors involved in the maritime industry – such as insurance – to provide short training courses of up to two months.

The whole sector was aware that expertise and know-how was not being passed on from one generation to the next. To that end, a graduate training programme was implemented in 2016 to ensure a successful takeover in human resources, in partnership with the l’Ecole Supérieure de Commerce d’Alger. Two training courses in maritime expertise and logistics are now being carried out, and they are both recognised by the Ministry of Higher Education. A third one about international maritime law should be offered soon. The general level of skill and knowledge of the port and maritime sector – which is a crucial sector in Algeria – will reach another level thanks to this new connection between universities and specialised companies.

In what other areas of the industry is investment being focused, and with what goals in mind?
DIB: The country, which has a coastline of 1600 km and imports 95% of its goods by sea, is currently investing massively in its maritime and ports sector. The aim is to balance the fact that most sea freight is organised by foreign shipping firms, which represents a loss of $5bn per year for Algeria. The national freight company has less than a 3% market share.

There is therefore an urgent need to modernise capacity. A plan to buy 25 new vessels – 18 cargo vessels for Compagnie Nationale de Navigation (CNAN) Nord and seven for CNAN-Med – is under way, not to mention several port upgrade projects across the country, such as the one in Cherchell. With such widespread investment in equipment and infrastructure, the country will soon need human resources to manage the new activity.

What other roles will be required in the sector in the immediate future?
DIB: There is a significant need for logistics, shipping and harbour technicians. Below the level of management, there is a shortage of operational workers in the field. There have been negotiations with the Université de la Formation to continue to develop training in this area. To enhance the global approach of this training programme, we also aim to develop partnerships with the ports of Marseilles and Antwerp, and to allow students to attend these courses remotely through online e-learning solutions.

How do you see the maritime education segment evolving to meet the demands of the industry?
DIB: We are aiming to develop new infrastructure to enhance Algeria’s training capacity in this key segment, with a new dedicated school building in the centre of Algiers. The existing school in Annaba which is an area of intense port activity in the east of the country, will also be expanded.

A partnership should be formed with the University of Annaba to create a maritime hub. As for the west of the country, currently there are some ongoing discussions with Oran’s Chamber of Commerce to provide port and maritime training. In the long run, the objective is to have a general institution that specialises in sea-related training that could even attract students from other countries in the region.
Legal Framework

New investment law adopted in March 2017
Relaxed restrictions on outside financing agreements
Information outlining public procurement procedures
Regulations for currency exchange instruments released
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- Employment
- Real Estate Transactions & Financing
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- Tax

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Laying down the law

A summary of legislation and regulations for investors

In the face of the constant fall in revenues from the oil and gas exports, the Algerian government has demonstrated a clear determination to substitute the hydrocarbon-dependent economic model with a new model substantially less dependent from the oil and gas revenues.

Over the course of the last two years, the Algerian authorities have made significant efforts to improve the business and investment climate in particular through the adoption of the following recent measures:

- The reform of the legal framework applicable to investments carried out through the adoption of the Law No. 16-09 on the promotion of investment dated August 3, 2016 (the Investment Law) and the publication of its implementing texts in 2017, reflecting the willingness of the Algerian authorities to improve the business climate;
- The softening of the preemption right of the Algerian state, demonstrating the willingness to attract foreign investments in Algeria through the adoption of this advantageous measure to the benefit of foreign investors;
- The setting up of an interbank foreign-exchange market through the creation of currency risk hedging instruments, which will profit Algerian enterprises that have suffered from the depreciation of the Algerian dinar. The adoption of this new measure providing a currency risk hedging instrument will undoubtedly protect the Algerian enterprises against the currency risk.

**PUBLICATION OF TEXTS IMPLEMENTING THE NEW INVESTMENT LAW:** In a move to improve the Algerian business climate, the texts implementing Law No. 16-09 on the promotion of investment (the Investment Law) published in August 2016 were adopted on March 5, 2017. The main implementing text is Decree 17-101 specifying the three main aspects of the Investment Law, namely:

- Negative lists: Decree 17-101 lays down the list of activities, goods and services excluded from the advantages provided by the Investment Law (for example, import activities, cement plants, grey cement and so on);
- Eligibility thresholds for the transfer guarantee: As a reminder, the transfer guarantee is the right for any foreign investor to transfer in foreign currency the dividends and other revenues resulting from its investment (subject to certain conditions being met). Article 25 of the Investment Law made the benefit of this transfer guarantee conditional upon the satisfaction of certain thresholds, which had to be fixed by regulation.
- Article 16 of Decree 17-101 defines the minimum thresholds provided for in Article 25 of the Investment Law for the benefit of the transfer guarantee calculated in instalments on the basis of the foreign shareholding’s share in the total cost of the investment, as follows:
  1. 30% when the investment amount is lower than or equal to AD100m (€829,500);
  2. 15% when the investment amount is in excess of AD100m (€829,500) and is lower than or equal to AD1bn (€8.3m); and
  3. 10% when the investment amount is in excess of AD1bn (€8.3m).

Additionally, in cases with foreign shareholders, their share of financing in the total investment cost is proportional to the share they hold in the company’s capital.

**INVESTMENT INCENTIVES REGIME:** Decree 17-101 specifies the arrangements for implementing the investment incentive regimes, namely:

- The advantages applicable to the extension and rehabilitation of investments;
- The exceptional advantages;
- The other advantages granted depending on the investment’s location;
The 2009 financial crisis prompted Algeria to amend regulations overseeing foreign investment.

In case of non-compliance with this progress report, the ANDI is entitled to suspend the advantages granted to the investor.

The ANDI then summons the investor so that it may submit the supporting documents for this failure to comply.

The investor must rectify its situation within one month. Otherwise, it incurs the cancellation of its registration certificate and loss of its rights, with a reimbursement of all the advantages received and payment of penalties set by law.

• Decree 17-105 establishes the terms and conditions for granting the operational advantages to investments creating more than 100 jobs located outside the South, the Highlands and other areas, whose development requires a specific contribution from the state.

**51:49 RULE:** Since the 2009 Complementary Finance Law (2009 CFL), Algerian foreign investment regulations provide for the limit of foreign ownership at 49% in any investment — so the 51:49 rule implies the creation of joint ventures in which Algerian partners hold the majority stake.

The 2009 financial crisis prompted Algeria to amend regulations overseeing foreign investment by limiting the participating stake for foreign shareholders in Algerian companies to 49%.

**NON-RETROACTIVITY OF THE RULE:** While the 51:49 rule was clearly applicable to investments realised after the publication of the 2009 Complementary Finance Law, there were doubts as to its application to investments realised before then.

The 2010 Complementary Finance Law (2010 CFL), as subsequently modified, most notably by the 2012 Finance Law for 2012 (2012 FL) and the Finance Law for 2016 (2016 FL), clearly provides that “any modification of the trade register leads to the prior bringing into compliance of the company with the rules governing capital ownership”.

However, the following modifications are not subject to this obligation:

• Modifying the share capital (by increasing or decreasing it) without entailing a change in the proportions of allocation of the share capital as specified above;
• The transfer or exchange between former and new directors of guaranteed shares provided by Article 619 of the Commercial Code, provided that the value of those shares does not exceed 1% of the company’s share capital;
• Either removing an activity or adding a connected activity;
• Modifying an activity further to the modification of the activities’ nomenclature;
• Appointing the director or the company’s managers; and
• Changing the registered office.

Preemption Right Of The Algerian State: The State Holding Council (Conseil des Participations de l’Etat, CPE) has undertaken certain measures in order to facilitate the transfer of shares for the benefit of
For foreign companies setting up representative offices in Algeria, a registration duty of €12,441 is payable.
Foreign tenderers can be strictly penalised if they do not comply with their investment obligations.

Legal Framework Overview

However, state-owned companies are “required to draw up and to obtain the implementation, by their corporate bodies, of public procurement procedures, according to their specificities, complying with the principles of freedom of access to public sector contracts, equality of treatment of applicants and transparency of procedures”.

As a result, companies operating in Algeria remain subject to the key principles of public procurement regulations.

Compliance with these principles by state-owned companies will be ensured by the joint external control of all state-owned companies, namely control by statutory auditors, the Court of Accounts and the General Inspectorate of Finance. Within this framework, state-owned companies are free to define their own procurement regulations.

Competition Law: The National Competition Council (Conseil National de la Concurrence, CNC) was officially set up in January 2013, and is an administrative authority intended — in accordance with Ordinance No. 03-03 dated July 19, 2003 — to observe, rule and sanction trade practices and the functioning of the Algerian market.

The CNC has elaborated further on its own general doctrine with regards to competition and market matters in the business realm. It seems that the CNC currently cooperates with European countries, namely — the French, Italian and German competition authorities in continuation of a cooperation programme financed and supported by the European Commission, known as the Support Programme for the Association Agreement between Algeria and the EU.

This programme, which lasted from January 2011 to December 2012, involved future members of the CNC as the leaders and principal partners, as well as its European partners. In this particular context, the CNC may be inspired by European competition law.

Representative Offices: The ministerial order defining the new regime applicable to the representative offices (bureaux de liaison) of foreign companies in Algeria was released in December 2015. There was a significant degree of expectation surrounding this text, which aims to clarify the conditions under which representative offices can open and operate in Algeria.

It confirms the temporary and the non-commercial nature of these representation structures of foreign companies, which are prohibited from performing any economic activities.

The opening of a representative office remains subject to approval from the Ministry of Commerce, which has imposed stricter conditions:

• The payment of a registration duty of AD1.5m (€12,400), which was formerly AD100,000 (€829);
• The increase in the amount of blocked deposit during the existence of the liaison office from $20,000 to $30,000; and
• The opening of a foreign account in Algerian convertible dinars bank account in the name of the liaison office, credited with at least $5000. Approval is granted for two years by the Ministry of Commerce and is renewable. The order also specifies that no approval other than that delivered by the Ministry of Commerce can be granted to a representative office.
• Lastly, consulting and Customs declarant companies are expressly excluded from the possibility of creating a representative office.

Public Procurement Contracts: The newly established Public Procurement Code (PPC) was instituted by Presidential Decree No. 15-247 on September 16, 2015. According to Article 9 of Decree No. 15-247, “State-owned companies are not subject to the public procurement procedures.”
regulations. New draft legislation that relates to the competition is under preparation and evaluation by the government.

**EXTENSION OF IMPORT LICENCES:** In its ruling No. 1 issued on March 31, 2017, No. 2 on April 3, 2017 and No. 3 on May 31, 2017, the Ministry of Trade extended the import licensing system to cover industrial, agricultural, electrical and beauty products.

The ministry made the decision having announced earlier that the scope of the licensing system would be generalised to include all products intended for final consumption in Algeria (see statement dating from March 21, 2017).

The extension of the licensing system should be considered within the framework of a two-year ongoing process, resulting in Algeria becoming more restrictive on imports.

As early as 2015, Law No. 15-15 (Law 15-15), which amends and adds to order No. 03-04 of July 19, 2003 (the Order 03-04), set in place a specific import licensing system. Executive decree No. 15-306 of December 6, 2015 sets out the application terms and conditions for merchandise import and export licence regimes.

With the current era of falling oil revenues in mind, this system aims to help safeguard Algeria’s exterior financial balance in order to limit the decrease of the country’s foreign reserve assets.

**CLASSIFICATION OF IMPORT LICENCES:** In accordance with the classification of the World Trade Organisation, the above mentioned system distinguishes between two types of import licences that may be imposed on operators. The two licences are described in the section below:

- **Automatic licences:** they are granted in all cases following the submission of an application and are not administered in such a manner as to have restricting effects on imports or exports. These licences may be maintained as long as the reasons for their implementation still exist.
- **Non-automatic licences:** these licences are those that do not fall within the automatic licences definition. These licences shall not have trade-restrictive or distorted effects on imports or exports, which add to those caused by the imposition of the restriction.

Non-automatic licences are divided in two sub-categories:

- The quota by type of product, expressed as a percentage or absolute value;
- Contingent trade-protective measures, applicable to certain types of product from a specific country.

**THE AWARD CRITERIA OF LICENCES:** The applications for non-automatic licences are reviewed by the permanent inter-ministerial committee, which takes into account the expressed needs, the statistics resulting from the exploitation of data obtained and/or issued by the ministerial departments, and the accredited trade and employer’s association representatives. Each licence gives right to the allocation of quotas and contingents made in accordance with one of the following conditions:

- When the processing method is based on a chronological order, the allocation of quotas and contingents is made on a first-come-first-served basis.
- When the processing method is based on the allocation of requested amounts in quota, all the registered applications are simultaneously reviewed in order to determine the quantity or portion of the quota or contingent necessary to the granting of import licences.
- When a quota or contingent is reserved for the so-called traditional operators, the traditional flow of trade is taken into account.
- When the processing method is based on a call for expression of interest, the quota or contingent use rights are auctioned.

If the allocation conditions “prove to be inadequate”, the permanent inter-ministerial committee may resort to any other more appropriate method, which shall be specified in the licence’s notice of initiation.

**MEASURES REGARDING THE RESTRICTION OF IMPORTS:** The Ministry of Commerce has suspended the banking domiciliation of several industrial and food products, which have been published by the Professional Association of Banking and Financial Establishments.

**FOREIGN EXCHANGE INTERBANK MARKET:** Regulation No. 17-01 dated on July 10, 2017 relating to the foreign exchange interbank market and currency risk hedging instruments was published in the Official Gazette of September 26, 2017 and provides the following measures:

- Keeping of foreign exchange interbank market of the Bank of Algeria; and
- The creation of currency risk hedging instruments.
What are some of the significant implications of the Investment Law decrees from March 2017?

LAGHOUATI: The new Investment Law removed a number of constraints and uncertainties from the previous law on investments, issued in 2001, which has been significantly amended since 2009. The previous law is another manifestation of the authorities’ attempt to help ease existing rules and remove regulations that are no longer relevant.

Another positive development that illustrates the willingness of the government to facilitate increased foreign investment is the resolution of the State Holding Council, which no longer submits to the preemption right of the state for some transfers of foreign stakes within Algerian companies. In addition, the clause that stipulated that any foreign investment must generate a positive balance of foreign currency no longer exists.

There have also been significant adjustments made to the investment incentive regime. This newly gained flexibility is vitally important for investors. Until now, there was uncertainty about the terms of transfer for their investments.

To what extent will the new legal framework and incentive regime boost investments in Algeria?

LAGHOUATI: It is clear that the new texts can contribute to the promotion of investment, but this alone is not enough. Confidence must be promoted among both national and foreign investors to encourage their investment. For foreign investors in particular, the government should establish a list of countries that are attractive to invest in.

It is necessary to take into account such a ranking, as it is important to become as attractive as neighbouring countries for foreign investors. The level of attractiveness is measured by the return on investment, and consequently results from the entire legal and tax environment, and not only from the law on investments or a list of tax exemptions. For instance, the difficulties associated with obtaining a work permit for foreign executives or accessing financing locally can impact return on investment.

Therefore, improving the business environment means adjusting the whole framework. Investors need legal stability, visibility and transparency over the long run. As a consequence of this, it is necessary to avoid, as much as possible, frequent changes within short periods of time.

Given the drop in oil prices, there are less resources for investment, which is why it is crucial to encourage the public sector to team up with foreign investors to work on major infrastructure projects by implementing a public-private partnership (PPP) law. To this end, it is encouraging to see that a PPP charter could be drafted and signed in early 2018. Lastly, it is worth remembering that no specific sectors are closed to foreign investment. Benefits that derive from investment incentives are automatic, without any prior formal approval from the National Agency for Investment Development, as long as the amount of the investment does not exceed €45m.

How will the National Competition Council ensure transparency and corporate compliance?

LAGHOUATI: The establishment of the National Competition Council (Conseil National de la Concurrence, CNC) is a very good sign, as it represents another step forward for the economy, and places Algeria line with international standards.

The CNC has the sensitive task of ensuring good market practices by economic actors in the interest of the consumer, as well as working to draft a comprehensive compliance programme to help push companies to voluntarily comply with competition rules. It will be a fundamental institution for the country, and to fully fulfil its function, it needs to ensure both its autonomy and its prerogatives.

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Tax

The 2018 Finance Act introduces new tax laws
Personal income tax rates continue to rise
Reduction of corporate turnover tax is welcomed
Value-added tax on sales increases for first time
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The fundamentals

Key tax regulations analysed and reviewed

**TAX ANALYSIS:** The Algerian tax system is structured and governed through five key tax codes:
- The code of direct taxes and related taxes.
- The code of taxes on sales, which is mainly dedicated to value-added tax (VAT).
- The code of indirect taxes.
- The code of registration duties.
- The code of stamp duties.

Another code, the fiscal procedures code, governs the relationship between the tax department and taxpayers – with their respective rights and obligations – for the determination of the taxable bases, for tax collection and on litigation procedures.

Each of these codes is updated by a finance act, which amends on a yearly basis existing provisions about tax rates, new taxes and new procedures.

Apart from amending tax codes, finance acts also provide non codified provisions about taxes and amendment to other laws, such as the investment law and the accounting law.

Since the 1992 tax reform, the codes mentioned above have improved in substance and applicability and have been adapted to the economic context of each coming year.

This reflects the government’s aim of having the most appropriate and feasible taxation of the stakeholders of the Algerian economy.

When tracking the changes that have occurred in the economic environment, it can be concluded that the Algerian tax system has adapted well to these changes and remains stable.

For individuals, direct taxes have been the most stable in terms of substance and procedure, as the climbing scale of rates for personal income tax has not changed for the last ten years and is unlikely to change for the next fiscal year.

Corporate income tax in Algeria is consistently among the lowest tax rates in the region, while the recent introduction of several rates based on business type is an attempt at fine-tuning the taxation of corporate entities.

The turnover tax (taxe sur l’activité professionnelle, TAP), a tax dedicated to the financing of provinces and districts, was reduced in 2017. It had been criticised by leaders of enterprise, particularly those in manufacturing activities who wanted to develop the economy.

VAT on taxable sales increased for the first time in 2017, from 17% to 19%. Business tax payers of VAT have followed the transition procedure for the implementation of the new rate, particularly for contracts concluded under public procurement, where the 17% rate has been maintained.

Among the other taxes on sales are the internal tax on consumption, a leverage for tax collection on consumption on products such as tobacco and beers, and also some other products deemed to be luxury goods.

Indirect tax increases have also been noticed on alcohol and tobacco, in addition to gold, silver and platinum, through changes to the indirect tax code, which governs taxes on designated products.

Modest increases have been brought to the stamp duties code and will continue in order to balance, to some extent, the costs incurred by institutions in charge of delivering official documents.

This tax analysis would not be complete without addressing the taxes generated by the hydrocarbons sector, which account for 40% of the total resources, both in good times and bad.

Hydrocarbons sector taxes are specific and regulated by the hydrocarbons law, which supersedes domestic common tax law as it is considered a dedicated law.

Tax payers from the oil and gas sector will continue to report their taxes to the Division for Large Enterprises (Direction des Grandes Entreprises)
Individuals who have their fiscal domicile in Algeria are subject to personal income tax on all of their revenue or service. The taxable basis is the amount of the invoiced monthly sales for trading activities, while the taxable basis for the activities in services and construction is made of collections. TAP shall be paid at the district where the work or service is performed.

However, tax payers of the DGE can pay this tax together with all other taxes at the collector’s desk of DGE.

Algerian companies, with or without foreign capital, enjoying tax incentives as granted by the investment law, may benefit from a tax holiday for TAP. This tax relief leads to a commitment to reinvest the equivalent of the saved taxes within four years after the fiscal year of the tax incentive; the same applies for corporate income tax.

Manufacturing activities enjoy a reduced rate of 1% without benefit of any further reduction, while a reduction of 25% is granted to the activities of construction and civil and hydraulics works.

Construction activities, civil and hydraulic work are those registered as such at the companies’ register and which lead to the payment of specific social security contributions.

Out of these reduced rates and reductions, the standard rate of 2% applies for trading and services. The tax is due upon collections for services and in the construction sector, while it is due upon billing for other businesses.

Algerian companies, with or without foreign capital enjoying tax incentives as granted by the investment law, may benefit from a tax holiday for TAP. As with corporate income tax, this tax relief leads to committing to reinvesting 30% of the equivalent of the total saved taxes within four years.

THE CORPORATE INCOME TAX: The filing of corporate income tax, for corporate bodies, takes place at the headquarters’ location in Algeria or at the location of the main establishment.

The annual tax return is due by April 30th of the following year. The 2018 Finance Act will change the due date for the final payment as it will not need to be made at the same time when the return will be filed, but within the next 20 days following the deadline mentioned above, i.e. May 20th of the following year.

Instalments paid during the relevant fiscal year shall be offset from the total due amount.

For Algerian companies, instalments are based on profits from the previous year. Three instalments at 30% of the previous year’s profit shall be paid respectively, due by March 20, June 20 and November 20.

By exception, foreign companies subject to the general tax regime pay the instalments at the rate of 0.5% on every payment received – including advance payments – based on the total value of the contract, which is meant to be VAT inclusive.

The applicable rates for corporate income tax are as follows:

- 19% for manufacturing activities;
The value-added tax on taxable sales was increased for the first time in 2017, rising from 17% to 19%.

In the presence of combined fiscal years, the period of four years mentioned previously is considered from the closing date of the first fiscal year.

The amount of profit to be reinvested in the context of these provisions cannot be distributed as dividends.

THE BRANCH TAX: Since 2009 the Algerian tax law has included a further taxation of the net profit reported by foreign companies present in Algeria through branches or permanent establishments when they are from a non-tax treaty country.

For this purpose, both branches and permanent establishments of foreign companies are considered as distinctive fiscal professional installations from their mother companies and are consequently taxed on their net profits at a rate of 15%.

TAXATION OF DIVIDENDS:
Dividends paid to Algerian corporate bodies are exempt from taxation, provided that the company that pays the dividend has paid its own corporate income tax.

Otherwise, the taxation of dividends takes place by way of withholding when the dividend is paid to an individual holder of shares after a withholding of 10%, or upon the transfer of dividends in favour of a foreign partner after withholding 15%, unless stated differently in a tax treaty.

TRANSFER PRICING RULES: Algerian tax authorities have a special focus on transfer pricing policies applied by taxpayers, when those taxpayers are part of a group.

For this purpose, documentation on transfer pricing policy is due, together with the annual tax return. The documentation shall highlight the transfer pricing policy applied among any kind of transactions performed between related entities, including those based overseas.

Related parties are those defined under the Algerian accounting law and furthermore under article bis of the direct tax code.
Under the wording of these regulations, companies are considered as related parties in the following situations:

- When one company based in Algeria, or outside Algeria, is directly or indirectly involved in the management, in the control or in the share capital of an entity operated in Algeria or outside of Algeria;
- If in a company operated in Algeria or outside Algeria, the same persons participate directly or indirectly to the management, to the control or to the share capital of a company operated in Algeria or outside Algeria.

**THE STANDARD DOCUMENTATION SHALL INCLUDE:**

**A global documentation including:** The global information about the activity of the company, its organisational structure and the kinds of transactions made between the related entities, together with a description of the group transfer pricing policy.

**A specific documentation related to the fiscal year including:**

- A description of the company, of its activities and the kind of transactions performed, including changes incurred during the fiscal year;
- A description of the operations performed with the related entities including the kind of flows and the amounts, and any payments of royalties. These elements can be reported by global flow and by the type of transaction;
- Copies of annual audit reports, together with the audited financial statements related to the reported fiscal year;
- A list of key owned intangible assets, which can include licences, trademarks, trade name and knowledge;
- Copies of the contracts between related companies;
- Financial information, information about overhead and admin costs, and research and development costs;
- A presentation of the transfer pricing method applied during the fiscal year, justifying this method in comparison with the principle of full competition to enable a comparability analysis (analysis of the market, functional analyses and economic situation contractual provisions).

The required documentation is expected with the annual tax return for every fiscal year, from foreign companies and from any corporate entity filing tax returns at DGE, no later than the April 30 following the relevant fiscal year, which is the deadline for submitting the annual tax return.

Failing to produce this documentation within 30 days following a notification from the tax department may lead to a fine of AD2m (€16,589) with the reinstatement of the transferred benefits, increased by 25%.

**THE WITHHOLDING TAX REGIME:** An “all in one tax” for foreign companies performing services in Algeria.

The income of foreign companies performing services with no permanent professional installation in Algeria is taxed by way of withholding, unless they have elected for the general tax regime.

Foreign services providers may exercise the option to elect for the country’s common law tax regime. In this case, foreign services providers become responsible for their own taxes and have to meet the same kind of compliance required under the general tax regime.

When the withholding tax system applies, the tax regulation does not impose the setup of a formal entity.

The client paying the fee is responsible for withholding the tax and for remitting it to the tax collector.
Value-added tax is assessed at a standard rate of 19% or at a reduced rate of 9%, depending on the product.

Transfer duties: The transfer of funds, for any kind of payment to a foreign supplier, shall be declared to the tax authorities prior to the effective transfer. Banks are required to proceed with the transfer only once the attestation of transfer has been made available by the tax department after considering that the beneficiary has cleared any tax liability in Algeria, or that he is exempt from taxes.

Most of the treaties concluded by Algeria are under the OECD model and very often define the presence of different kinds of businesses that qualify for a permanent establishment.

The 2018 Finance Act also proposed to exclude the lease charge for vehicles that are not the main assets as per the company purpose, together with their cost of maintenance from deductible costs.

The 2018 Finance Act was adopted by Parliament on November 26, 2017. Among the provisions submitted to amend the corporate taxation was a clarification that may significantly change the tax holiday granted to Algerian corporate entities exporting goods and services and paid accordingly in foreign currency repatriated in country.

From January 1, 2018 the following will not have this incentive for their exports:

- Land;
- Maritime and air transport;
- Reinsurance companies;
- Banks;
- Mobile telephone operators;
- Voice over IP operators;
- Companies involved in the upstream or downstream of the mining sector.

The 2018 Finance Act also proposed to exclude the lease charge for vehicles that are not the main assets as per the company purpose, together with their cost of maintenance from deductible costs.

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- Land;
- Maritime and air transport;
- Reinsurance companies;
- Banks;
- Mobile telephone operators;
- Voice over IP operators;
- Companies involved in the upstream or downstream of the mining sector.
Tax treaties may matter for the deduction of overheads as most of the treaties do not state a threshold, which overrides the limit of 1% of total sales imposed by the Algerian tax law.

They also matter for the taxation of individuals as in most of the cases, individuals may keep their taxation in their home country provided that they fit the following criteria:

- Spend less than 183 days in Algeria;
- That their salary is paid by an employer non-resident of Algeria; and
- That the salaries are not accounted as costs of a permanent establishment in Algeria.

In Europe, Algeria has signed tax treaties with Portugal, Spain, France, Italy, the UK, Belgium, Switzerland, Austria, Germany, Bosnia and Romania.

Arab countries that have entered into tax treaties with Algeria are Jordan, UAE, Bahrain, Egypt, Lebanon, Kuwait, Qatar, Saudi Arabia and the Maghreb Union countries.

Algeria has also concluded tax treaties with Russia, Turkey, China, Indonesia, South Korea, South Africa and Canada.

**VALUE-ADDED TAX:** Under Algerian domestic tax law, VAT is assessed at a standard rate of 19% or at a reduced rate of 9%, depending on the goods or services in question, with respect to certain taxable transactions performed in Algeria by persons or entities which carry on, either regularly or on a casual basis, commercial and industrial activities.

The reduced rate of 9% VAT applies to several items and transactions relating to construction activity and a number of specific goods that the state aims to deliver to the market at prices that are affordable.

The taxable amount varies depending on the type of transaction liable to VAT. In broad terms, the sale price of the good sold or service rendered should be the tax base of the VAT due.

Legal entities with no place of business in Algeria but engaged in taxable transactions in the Algerian territory are subject to the same VAT rules as Algerian residents.

Algerian tax law applies a reverse charge mechanism, putting the liability of the foreign entity providing services outside of Algeria on the purchaser of those services.

Refund of input VAT is only admitted in some given cases (e.g., where the excess derives from the difference in VAT rates applicable to the acquisition of raw materials, or in case of closing an activity).

Companies delivering goods or services to a client whose operations are exempt from VAT have to get a certificate of exemption from their client for every invoice issued and paid.

The vendor on his side has to apply for VAT exemption annually to enjoy the exemption of the purchase of goods and services that will be directly related to the scope of the contract.

**CUSTOMS DUTIES:** Customs duties apply to final imports. The Customs tariff varies, with rates of 5% to 30%.

Algeria has concluded a free trade treaty with the EU, the objective of which is to reduce Customs duties by 2020. Algeria has also adhered to the Free Trade Arab Zone, which exempts it from Customs duties.

For equipment brought under temporary import, importers are required to put a bond in favour of the Customs authorities to grant the export of the items brought under temporary import.

The value of the bond is indexed on the notional amount of Customs duties. The location of imported items under temporary imports should be declared to Customs authorities.

Any change of location should be declared to the Customs authorities, as they may charge heavy fines for not complying with this requirement.

**TAXATION OF INDIVIDUALS WITH SALARY INCOME:**

**PERSONAL INCOME TAX ON SALARIES:** Any employer in Algeria, whether or not the employees are expatriates or Algerian nationals, has to comply with the filing and the payment of income tax for employees.

According to the tax regulations of Algeria, individuals who have their fiscal domicile in the country are subject to personal income tax for their overall revenue.

Those whose fiscal domicile is outside Algeria are taxed in Algeria for their revenue earned from an Algerian source.

<table>
<thead>
<tr>
<th>Monthly taxable income for salaries</th>
<th>Tax rate by range</th>
</tr>
</thead>
<tbody>
<tr>
<td>Not exceeding AD10,000</td>
<td>0%</td>
</tr>
<tr>
<td>From AD10,001 to AD30,000</td>
<td>20%</td>
</tr>
<tr>
<td>From AD30,001 to AD120,000</td>
<td>30%</td>
</tr>
<tr>
<td>Greater than AD120,000</td>
<td>35%</td>
</tr>
</tbody>
</table>
Individuals are considered to be a tax resident in Algeria when:
1. They have a permanent home there, either through ownership of a house or via rental of a property for a minimum of one year;
2. Algeria is the main place of residency or the main place of their interests; and
3. They undertake a professional activity via some form of employment or as freelancer.

For employees, the revenue is defined as all wages, salaries and pensions.

**The following items are not subject to taxation:**
- Allowances for business expenses;
- Hardship allowances for work performed in isolated regions; and
- All social contributions (employee's share of the social security).

**The rates displayed in the table on the left apply to personal income tax.** Salaries stated in foreign currency, such as those to be paid to expatriates, should be converted at the exchange rate on the day of the payment.

**Other taxes related to employment:** Employers are also liable to an apprenticeship tax of 1% of the total wage cost. The apprenticeship tax may be reduced when a fixed headcount of apprentices is met.

Another 1% tax on total wage cost is implemented in the form of a professional training tax, the amount of which can be reduced based on the assessment of the training effort made by the employer, provided that the continuing education has been performed through a public training institution, or by an approved trainer.

The head of professional training of the relevant province has the authority to provide the attestation related to a reduction of this tax.

**Social security:** Salaries are subject to social security contributions of 35%.

All employers are liable to social security by remitting the employees' contribution withheld at source at the rate of 9% together with the employers' contribution at the rate of 26%.

Except for those contributing to a social security scheme in a country that has a social security treaty with Algeria, under a secondment scheme, the payment of contributions outside of Algeria's overseas contribution does not exempt an individual from paying social security in Algeria.

The contribution covers risk injuries, medical expenses, family allowances and the pension.

The additional 2015 Finance Act brought a new provision to enable any active person occupied and not subject to social security, to voluntarily join the social security regime to enjoy medical cover for sickness and maternity, subject to a monthly payment of 12%, calculated at the minimum national guaranteed wage.

Any employer who fails to declare his employees as having joined social security within the periods prescribed by the legislation that is currently in force, (10 days from the first day of employment) is punishable with a fine of between AD100,000 (€829) and AD200,000 (€1659) per worker not affiliated, and a term of imprisonment of two to six months, or one of the two penalties.

In case of recidivism, the employer is liable to a fine of AD200,000 (€1659) to AD500,000 (€4147) per worker not affiliated, and a term of imprisonment of two to 24 months.

**Paid leave and work interrupted by inclement weather in the construction industry:**

Companies performing an activity related to the construction sector, civil works and Hydraulic works are also required to contribute to a special fund (CACOBATPH) to cover vacation pay.

Employers contribute to this fund at the rate of 12.21% for the paid vacation, with an additional contribution at the rate of 0.75%, with half of the amount is paid by the employee and half of the amount paid by the employer, to cover the paid work days that are interrupted because of bad weather conditions.

**Drafted taxation law for individuals:**

Parliament has finally asked to retrieve the proposed wealth tax that was suggested to replace the property tax.

The project intended to double the existing scale of rates of the property tax.

The abandonment of the wealth tax project has been vetoed in view of the difficulty of its application on the ground, particularly when taking into consideration the difficulties related to the reporting by the relevant taxpayers and the absence of a computerised system that is able to verify the validity of the statements.
Sizing up the market

Samir Hadj Ali, Chartered Accountant and Managing Partner, Mazars Algeria, on the new investment law

Algerian investment law, under its reframed policy published in August 2016, is deemed to be a general frame of legislation, the purpose of which is to define the general policy of investment for both foreign and local investors. Among the key changes made to the investment law was the removal of the pre-emption right and the limitation of stakes imposed on foreign investors, although these are still in force through other forms of regulation, such as finance acts.

On the other hand, the investment law references implementing regulations that are determined to be more flexible when it comes to the monitoring of changes to the practical aspects and selection process of an investment. Under the chapter regarding the exclusion of some activities not eligible for incentives and the implementation procedures, executive decree No. 17-101, dated March 5, 2017 has brought more clarification on the activities excluded from these incentives, as well as the implementing measures related to the different kinds of investments.

The list of excluded activities and excluded capital expenditure items appended to this executive decree discloses the sectors that are already developed or overdeveloped and that do not need further enhancement. It also clarifies the level of investment required from foreign shareholders to grant the repatriation of their dividends, their share capital and the related capital gains. Foreign shareholders are required to invest at least 30% of the total value of the investment when the total is less than AD100m (€829,450). That minimum is lowered to 15% when the investment is within a range of AD100m (€829,450) to AD1bn (€829.45bn) and to 10% when the investment is above AD1bn (€829.45bn).

The executive decree also defines what is meant by investment for refurbishment and investment for extension. Refurbishing is defined as the acquisition of goods and services that remedies the technological obsolescence of existing equipment and its depreciation, in order to enhance productivity. Extension is defined as enabling the enhancement of manufacturing capacities in quantity and/or in quality, while the acquisition of sideline equipment is not considered to be an investment. The same exclusion also applies to the replacement of capital expenditure items.

In order to calculate the investment necessary for refurbishment and extensions, the executive decree No. 17-101 has implemented the minimum level of investment that should apply in reference to the total value capital expenditures to benefit from the incentives, which mainly consist of tax holidays.

Companies with a gross capital expenditure of less than AD100m (€829,450) on their last balance sheet should dedicate a minimum of 25% of that value for extension or refurbishment to enjoy further tax incentives. That rate is 15% for investments within a range of AD100m (€829,450) and AD1bn (€829.45bn), and 10% for investments above AD1bn (€829.45bn). Although these rates may appear to be restrictive, the aim is to govern the ratios of investment while also enhancing levels of investment. For a more efficient practice, stakeholders should consider the potential growth of the investment for higher revenue and greater profitability. These rates are important factors for assessing the risk of an investment in the long term, as this regulation is unlikely to procure short-term profits. By introducing these rates, it is clear that the legislator aims for long-term and stable investments.

For investors, this requires a long-term commitment, with proper risk management related to the choice of investment on their capital expenditures, as the business environment may lead to new factors that could change the expected return on investment.

Sizing up investment definitively affects the economy, as on one hand, small and medium-sized enterprises might be excluded from this regulated selection, while on the other hand, companies with the capacity to invest might face the risk that their capital expenditures could be too large for the size of their company.
The Guide

Details on hotels located throughout the country
Essential information for all first-time visitors
Helpful tips for both leisure and business travellers
Phone numbers for embassies and business associations
Luxury stays

ALGIERS

EL DJAZAÏR (EX SAINT GEORGE)
24 Avenue Souidani Boudjemaâ
Algiers 16070
T: 023 48 11 08
F: 023 48 11 05
www.chaineeldjazair.com
reservation@chaineeldjazair.com

Rooms: 288 rooms, including seven senior, nine junior and two executive suites.
Health & Leisure Facilities: Tennis court, swimming pool with sun deck, fitness centre with gym and workout room, jogging track, spa, massage, jacuzzi and botanical garden.
Guest Services: Currency exchange, travel agency, car hire, concierge, minibuses, laundry, dry-cleaning, gift shop and minibuses.
Wining & Dining: La Pagode, Saint George, Dey lounge, Snack El Yasmine, banquet hall and Ebony nightclub.

HOTEL HYDRA
Boulevard Benyoucef Benkhedda
Algiers 16000
T: 021 54 89 42
F: 021 54 87 02
www.hotelhydra.dz
contact@hotelhydra.dz

Rooms: 100 rooms, including four suites and an apartment.
Business & Conference Facilities: Two fully equipped meeting rooms.
Guest Services: Parking, laundry facilities, transfer service to the airport, car rental service and currency exchange service.
Wining & Dining: Restaurant and room service.

SOFITEL ALGER HAMMA GARDEN
172 Hassiba Ben Bouaiil Street
Algiers 16015
T: 021 68 52 10
F: 021 67 31 42
www.sofitel.com
H1540@sofitel.com

Rooms: 333 rooms, including 11 junior suites.
Health & Leisure Facilities: Gym, heated outdoor swimming pool, solarium and sauna.
Guest Services: Concierge, car rental, parking, 24-hour room service, disabled facilities, airport shuttle, currency exchange, dry-cleaning and laundry.
Wining & Dining: Le Continental, El Mordjane, Le Difa, Oasis bar and pool bar.

HÔTEL EL AURASSI
2 Boulevard Frantz Fanon Les Tagarins
Algiers 1600
T: 021 74 82 52
F: 021 71 72 87 / 90
www.el-aurassi.com
contact@el-aurassi.com

Rooms: 414 units, including rooms with separate bedroom and living/office space and balcony; executive rooms with separate bedroom and living/office space; and standard rooms. The hotel also offers 16 comfort suites, 14 prestige suites, a presidential suite and 8, 120-sq-metre apartments.
Business & Conference Facilities: Three conference rooms with combined capacity for 1200 people, Four smaller rooms and a dedicated business centre.
Health & Leisure Facilities: Fitness centre, squash court, hamam, sauna, outdoor swimming pool, Four tennis courts and a variety of shops.
Guest Services: Airport shuttle, Wi-Fi in all rooms.
Wining & Dining: Four restaurants.
AZ HOTEL KOUBA
11 Rue Mohamed Rabia, Kouba
Algiers 16050
T: 021 77 73 73 / 0554 51 75 92
F: 021 77 76 76
www.azhotels.dz/kouba

Rooms: 57 rooms with city or sea views.
Business & Conference Facilities: An 80-sq-metre meeting room for professional and personal events.
Health & Leisure Facilities: Hamam, sauna, a fitness club and a half-open air swimming pool.
Guest Services: Foreign exchange, private parking, airport shuttle, car hire, dry-cleaning, free Wi-Fi.
Wining & Dining: l’Escale, a buffet-style restaurant.

SHERATON CLUB DES PINS RESORT
PO Box 62 Staoueli
Algiers 16101
T: 021 37 77 77
F: 021 37 77 00
www.sheraton.com/clubdespins
reservations.algiers@sheraton.com

Rooms: 419 rooms, including 102 suites, three club floors, club lounge and two presidential suites. Non-smoking facilities are available.
Business & Conference Facilities: Professional translation services, secretarial support, boardroom, business centre, facilities for groups ranging from 10 to 700 people, 700-seat auditorium, press centre, convention office and video-projection equipment.
Health & Leisure Facilities: Gym, heated indoor swimming pool, free-form outdoor swimming pool, private beach, tennis courts, sauna, steam room, treatment room, windsurfing and jogging path.
Guest Services: 24-hour room service, concierge, dry-cleaning, laundry, car hire, airport shuttle and florist.
Wining & Dining: Le Tassili, La Trattoria, Le Nautilus, Le Petit Bleu, PanAsia, La Dorade, La Brasserie, 1001 Nuits, La Terrasse, Le Café and Stars Studio.

HÔTEL EL KENZ
10 Rue Said Guendouz
Sétif 1900
T: 021 36 45 31 31
F: 021 36 45 32 82
info@elkenzhotel.com
www.elkenzhotel.com

Rooms: 40 rooms.
Business & Conference Facilities: Conference room with capacity for 60 people.
Guest Services: Shuttle service is available from the airport, as well as car rental services, air conditioning and plasma TV in the rooms, complimentary WiFi throughout the facility, guarded parking, and reception services available 24 hours a day.
Dining: A gourmet restaurant offering Algerian and continental cuisine as well as a cafeteria.

HOTEL EL KENZ
10 Rue Said Guendouz
Sétif 1900
T: 021 36 45 31 31
F: 021 36 45 32 82
info@elkenzhotel.com
www.elkenzhotel.com

Rooms: 40 rooms.
Business & Conference Facilities: Conference room with capacity for 60 people.
Guest Services: Shuttle service is available from the airport, as well as car rental services, air conditioning and plasma TV in the rooms, complimentary WiFi throughout the facility, guarded parking, and reception services available 24 hours a day.
Dining: A gourmet restaurant offering Algerian and continental cuisine as well as a cafeteria.

CONSTANTINE MARRIOTT HOTEL
Oued Rhumel Street, Cites des Arcades Romaines
Constantine 25000
T: 031 73 10 00
F: 031 73 10 01
mhrs.czlmc.constantine.reservations@marriott.com
www.marriottconstantine.com

Rooms: 180 rooms and suites.
Business & Conference Facilities: Various accommodations for hosting business meetings, conferences and social events.
Health & Leisure Facilities: Saray Spa with luxury treatments, extensive menu of massages, an indoor and outdoor pool, fitness classes and separate men’s and women’s lounges.
Guest Services: 24-hour room service, in-room coffee maker, LED screen TV and complimentary Wi-Fi.
Wining & Dining: Qasar restaurant (Arab and Mediterranean cuisine), Jannah (Italian cuisine), Malouf Lobby Bar and Touareg Lounge Bar.
ORAN

ROYAL HOTEL ORAN MGALLERY BY SOFITEL
1 Boulevard de la Soummam BP 284
Oran 31000
T: 021 41 29 17 17
F: 021 41 29 61 18
h9126-re@accor.com

Rooms: 112 spacious rooms and suites.
Business & Conference Facilities: Three spacious meeting facilities.
Health & Leisure Facilities: Spa with luxury treatments, extensive massage menu and fitness room.
Guest Services: 24-hour room service, in-room coffee maker, LED TV and complimentary Wi-Fi.
Wining & Dining: Les Ambassadeurs and Le Pacha.

LE MERIDIEN ORAN HOTEL & CONVENTION CENTRE
Les Genets
Chemin de la Wilaya, Route 75
Oran 31000
T: 041 98 40 00
F: 041 98 40 01
lemeridienoran.com
Resarvation.oran@lemeridien.com

Rooms: 296 guest rooms, including 42 suites.
Business & Conference Facilities: Business centre, and over 9000-sq-metres of meeting space, 28 meeting rooms, ballroom for banqueting functions for up to 1900 people, meeting room for up to 1100 people and auditorium with 3000 seats, Wi-Fi, translation rooms and secretarial services.
Health & Leisure Facilities: Swimming pool, spa with modern treatment rooms, hamam, sauna, jacuzzi, beauty salon and fitness centre.
Guest Services: 24-hour room service, laundry services, concierge, airport shuttle, car hire, Wi-Fi access and electronic safe.
Wining & Dining: Favola (Italian cuisine), Latitude 35 bar with terrace, Le Chai coffee shop and Club Lounge.

BEST WESTERN HOTEL COLOMBE
06 Boulevard Zabour Larbi Hai Khalidia
Ex Henry Martin Delmonte
Oran 31000
T: 041 74 61 75
F: 041 74 61 74
www.hotelcolombe.com
hotelcolombe@yahoo.fr

Rooms: 23 rooms, including junior, executive and prestige suites.
Business & Conference Facilities: Wi-Fi and conference room with capacity for 60 people.
Guest Services: Concierge, money exchange, shuttle service, dry-cleaning and laundry service.
Wining & Dining: Restaurant and cafeteria.

TLEMCEN

HOTEL IBIS TLEMCEN
Boulevard El Kiffane
Tlemcen 13000
T: 043 98 10 10
F: 043 38 12 12
h6583@accor.com

Rooms: 120 spacious rooms, available with one or two beds.
Business & Conference Facilities: Two meeting rooms, each with an area of 51 sq metres and a maximum capacity of 42 people.
Guest Services: Wi-Fi, satellite TV, connectivity panel and complimentary on-site parking, accessibility for people with reduced mobility, pets allowed.
Wining & Dining: SUD ET CIE Mediterranean restaurant, bar Rendez-vous and an all-you-can-eat breakfast buffet.

BOU-SAÂDA

HOTEL CAID BOU-SAÂDA
Rue Nassredine Dinet
Bou-Saâda M’Sila 28001
T: 035 42 43 96/97
F: 035 52 47 52
www.chaineeldjazair.com
hotelcaid@chaineeldjazair.com

Rooms: 72 rooms, standard and deluxe available, including two senior suites.
Business & Conference Facilities: One conference room, fax and photocopying facilities.
Health & Leisure Facilities: Tennis court, swimming pool with sun deck and botanical garden.
Guest Services: Reception desk, car hire, minibuses, laundry and dry-cleaning services.
Wining & Dining: Restaurant serving international cuisines, banquet hall and night club.

EL OUED

LA GAZELLE D’OR
N16 Route de Touggourt
El Oued 39000
T: 032 11 89 02
F: 032 11 89 03
www.hotel-lagazelledor.com
contact@hotel-lagazelledor.com

Rooms: 38 villas, three luxurious premium villas and 52 traditional tents.
Health & Leisure Facilities: Three swimming pools with sun decks, a botanical garden, 4x4 and quad desert excursions, carriage rides, traditional regional activities and 2500-sq-metre spa facilities.
Wining & Dining: Four different restaurants.
Business hours are from 8.00am to 5.00pm, with an hour taken for lunch. Public administrations are open until 4.30pm. During the month of Ramadan, firms allow their employees to leave early. The weekend has fallen on Friday and Saturday since 2009.

Visa applications are usually conducted by prospective visitors in their country of residence prior to arrival. Business travellers are required to obtain an invitation letter, proof of their accommodation and travel insurance valid for the length of their stay.

### GOVERNMENT MINISTRIES

<table>
<thead>
<tr>
<th>Ministry</th>
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<td>Office of the Prime Minister</td>
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<td>Foreign Affairs</td>
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### LEGAL & ACCOUNTANCY SERVICES

- **Gide Loyrette Nouel** (021 23 94 94)
- **Mazars** (021 43 54 13)

### CAR HIRE

- **Rapide Car Location** (021 50 61 12)
- **Hertz Car Rental** (021 36 08 17)
- **Europcar** (021 50 78 19)

### EMERGENCY

- **Police** (17)
- **Fire** (14)
- **Health** (115)
- **Gendarmerie** (021 67 25 02)
- **Ambulance** (021 73 56 56)
Facts for visitors

Useful tips for new arrivals

LANGUAGE: Modern Standard Arabic is used in schools, government offices and the media. In practice, Darja, the local Algerian dialect of Arabic, is more commonly used and varies from one region to another. French is frequently spoken in business, though this is less true outside Algeria’s main urban areas where Arabic or Tamazight are spoken in all aspects of daily life. English is becoming more widely studied among young Algerians, though its use remains limited.

TRANSPORT: Tram and metro systems have been introduced in recent years to improve the public transport network in Algiers and ease congestion. The Algier’s metro extension to El Harrache was completed in mid-2015, and other line extensions are due by the end of 2017. Tramway projects are also under way in other cities and are set to come on-stream in the coming years. Other forms of public transport are popular, including buses, which are operated by private and public companies and offer affordable fares. Efforts have been made to improve comfort, such as at the beginning of 2015, when buses operated by the public transport authority of Algiers began offering free Wi-Fi.

Taxis remain the most common mode of public transport; they are easily found in big cities and also operate longer trips on certain routes. While rides are relatively inexpensive, negotiation on longer journeys not on specific routes is often necessary.

Road congestion remains an issue in big cities, as traffic can cause significant delays and trips need to be carefully planned during rush hours. One of the largest infrastructure projects ever completed in Algeria, the East-West Highway, has drastically improved connections across the country as it crosses the northern part of Algeria, from Morocco to Tunisia. Some portions are being revamped, however, causing small delays.

In terms of air travel, Algeria is well served from Europe, with many carriers flying to its major cities. Domestic routes are run by Air Algérie and Tassili Airlines, which offer flights between the main airports.

ETIQUETTE: Algerians are warm and welcoming, with hospitality holding high value. It is customary to say "salam" or "as-salamu alaykum" (peace be upon you) upon entering a store, business or home.

Greetings rituals vary based upon the region, but generally people greet each other with two kisses on the cheeks and a handshake. Many, but not all, women will shake hands with both men and women, so men should wait for women to initiate a handshake. Discussions are often oriented towards personal life, family and professional projects.

BUSINESS HOURS: Business hours are from 8.00am to 5.00pm, with a one-hour lunch break usually taken at noon. Public administrations are open until 4.30pm. During the month of Ramadan, companies allow their employees to leave early. Since 2009 the weekend has fallen on Friday and Saturday.

NATIONAL CHARACTER: Algeria is a diverse society with roots in Arab, Mediterranean and African cultures. Regional identities are very strong, with each possessing its own traditions and character.

DRESS CODE: In urban centres the business dress code for men is similar to prevailing norms in Western Europe and North America. However, the standard for women is slightly different and can vary from liberal to conservative depending on the region.

Female visitors should pay attention to ensure that their shoulders, knees and chest are covered. Outside major cities, traditional dress is usually the norm and travellers should wear more conservative clothing.

TIPPING: Tipping is not particularly engrained in the culture and on the whole it is not expected. Nevertheless, should you decide to tip, it is greatly appreciated by locals whether in a taxi or at a restaurant.

VISAS: Visa applications are usually conducted by visitors in their country of residence prior to arrival. Business visas require a letter of invitation and proof of accommodation. Along with valid travel insurance, this is usually enough to receive a visa for up to three months.
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